Deloitte.

State of Illinois
Savings Validation Results

Final Report

Deloitte Consulting LLP

October 2005

Table of Contents

Executive Summary

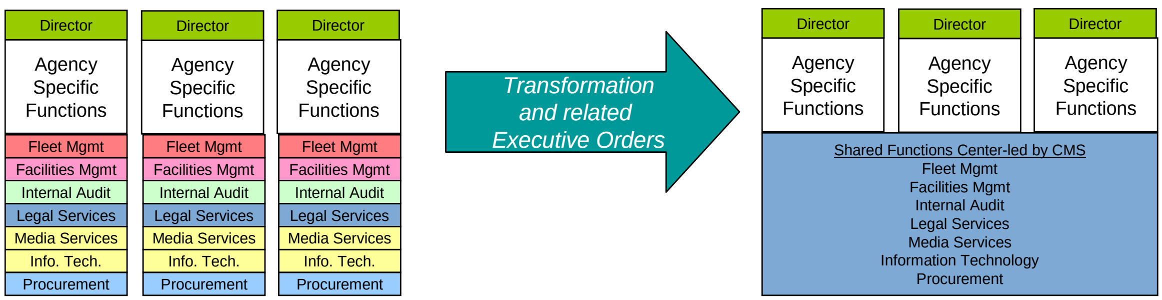
State of Illinois "Efficiency Initiatives"

As part of an effort to improve the effectiveness of state government, the State of Illinois has undertaken a number of transformational efforts to streamline State operations and services. These efforts have focused on cost reduction, increased transparency of services and results, and improved accountability in serving citizens.

The State has begun to evolve into a coordinated enterprise-wide organization which has the potential to offer better service at a lower price. The initiatives have reduced costs, introduced standard processes and procedures, and started the foundation for sustained productivity.

Central Management Services (CMS) was instructed by Governor Blagojevich in 2003 to analyze key State functions and to implement changes which would lead to greater efficiency and accountability. CMS began to pursue a shared-services organizational model to coordinate State-wide delivery of similar functions or processes.

This effort included programs for Procurement, Employee Benefits, Information Technology (IT) and Telecommunications, Facilities Management, Internal Audit, Legal Services, Media Services, and Fleet Management.



Agency Silos:
Agencies each have their own back-office functions and systems

Enterprise Framework:
Agencies share back-office functions and systems

This report focuses on the results of the above mentioned "Efficiency Initiatives." Other transformation efforts and programs may have resulted in savings and incremental benefits, but are not further addressed in this report or included in the validated results.

Purpose of the Savings Validation Process

Preliminary savings were projected at various points in the planning and project processes. Since these initial estimates were developed, the Efficiency Initiatives have progressed and are generating savings that required further analysis, validation, and communication.

CMS undertook the Savings Validation effort in May 2005 in order to:

- Implement the Office of the Auditor General recommendations regarding CMS savings validation and documentation procedures.
- Allow management to assess the progress of the programs.

The Savings Validation effort was designed to determine actual savings captured through the Efficiency Initiatives; compare these results with original estimates; allow management to measure the success of the implemented improvements; and provide a framework to be used for future efforts.

Deloitte Consulting LLP was engaged by the State to assist in defining an approach for quantifying and reporting actual savings. A combined CMS and Deloitte Consulting team was supported by key stakeholder agency personnel.

A systematic, consistent and objective validation approach was developed for analyzing the Efficiency Initiatives and underlying projects within the scope of the validation effort.

Initial Communications of Efficiency Initiative Savings

Central Management Services previously estimated $482 million of savings from these Efficiency Initiatives for fiscal years 2004 and 2005 (outlined in the Fiscal Year 2005 Illinois State Budget). Additionally, preliminary savings amounts estimated by CMS in January 2005 of approximately $600 million were based upon projected savings from the initiatives.

Key enhancements reflected in this savings validation effort compared to the previous effort to estimate savings include:

- Use of actual financial results for fiscal years 2004 and 2005 – previously communicated amounts included projections and estimates based on anticipated results;
- Application of a consistent approach for establishing baseline spend amounts;
- Calculation techniques that applied managerial accounting and financial analysis;
- Clear definition and presentation of savings categories; and
- Evaluation of similar-type projects to identify and exclude any duplicate savings amounts.

Definition of Savings

In this report and in the underlying project name (Savings Validation), the term savings is broadly used to refer to all types of financial benefits gained through the impacts of the Efficiency Initiatives.

Estimated Savings Not Included in the Validation Results

Applying the enhanced savings validation approach enabled CMS to quantify actual savings. In comparing the savings estimates previously communicated and the validated savings now reported, the Savings Validation team noted the following:

- Some projects were excluded from the validation results.
  Anticipated savings of $30 million estimated by CMS for 11 projects were excluded from the total validated savings, due to lack of readily available data or time constraints.

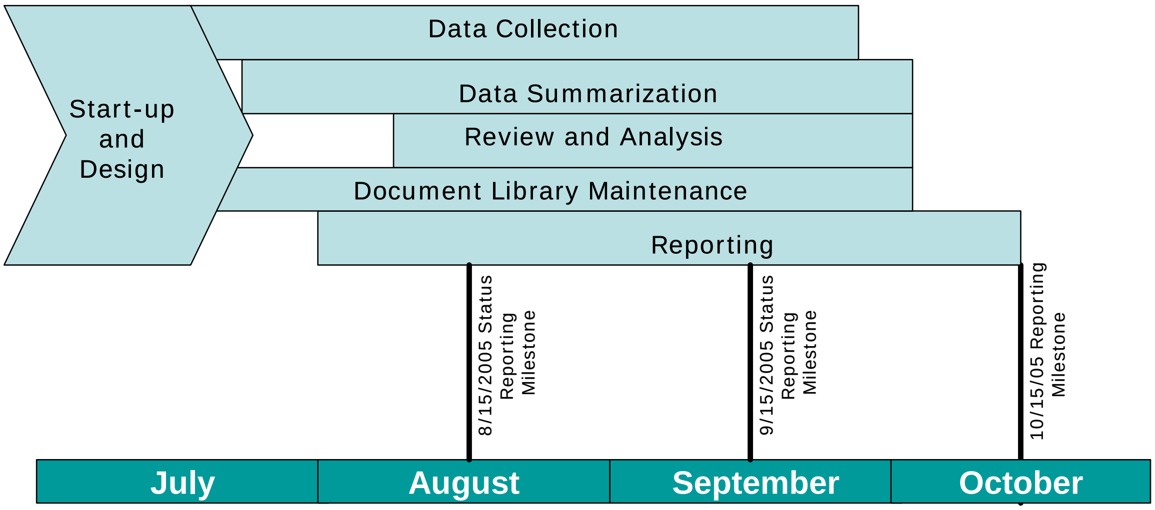
- Savings estimated in January 2005 included duplicate projects and amounts.
  Originally reported savings of $44 million resulted from counting duplicate projects. The estimates resulted from fragmented efforts within each initiative to quantify savings.

- Not all Efficiency Initiatives have fully achieved their anticipated benefits.
  Certain benefits expected have been delayed or not realized. For example, the Facilities Consolidation initiative has provided validated benefits but has not fully achieved savings in the areas anticipated (e.g., space consolidation, lease rationalization).

- The validated savings included only two fiscal years.
  Savings related to fiscal years 2006 or beyond are not presented in this report. For example, a single re-negotiated vendor contract may extend for four or five years. The incremental savings over the remainder of the contract have not been included.

Savings Validation Project Approach and Methodology

The diagram below illustrates the project's main tasks and related timing:



Start-up and Design—Established the approach and standards for the savings validation effort. This included planning, mobilizing resources, designing validation guidelines and templates, establishing project management procedures, and monitoring status.

Data Collection—Developed sound and reasonable models for calculating financial savings realized. Collected supporting data and evidence related to the financial models, figures, and assumptions used in developing the savings amount. Developed and communicated necessary assumptions for the analysis.

Data Summarization—Designed, built, and populated a data repository to support savings reporting requirements.

Document Library Maintenance—Submitted, indexed, and retained supporting documentation for further inquiries as project validations were completed.

Review and Analysis—Analyzed and resolved any issues that may have arisen surrounding financial models or evidence. Finalized and approved saving calculations.

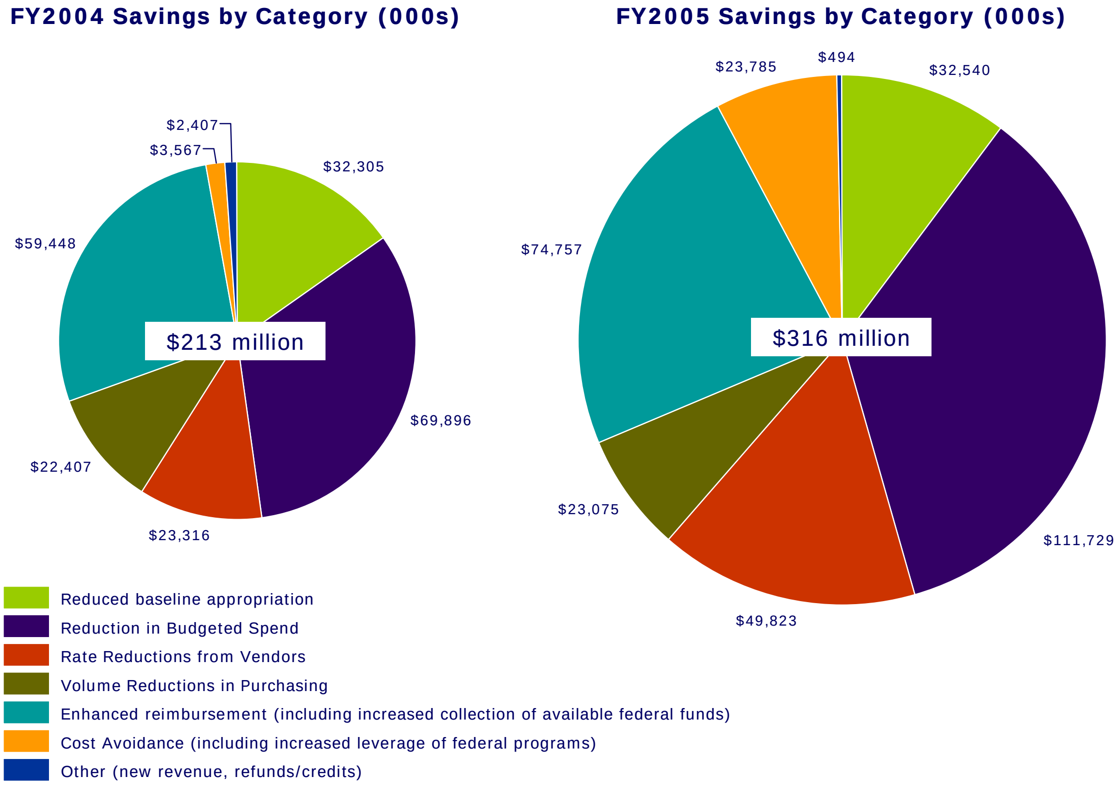
Reporting—Updated management on progress and the results of the validation process at both interim and final reporting dates.

* * *

This savings validation approach will offer a common framework for both projecting estimated savings and for calculating actual results. It can be utilized on an ongoing basis by CMS for other initiatives.

Summary of Savings

Over $529 million was validated as savings from the Efficiency Initiatives for the combined fiscal years of 2004 and 2005. The charts highlight the composition of the savings for FY2004 and FY2005.



Notes:

- The amounts presented are based on financial analysis performed by the validation team.
- The financial analysis applied is outlined separately in this report.
- The financial analysis relied on information collected from State resources and underlying documents along with assumptions that were necessary to compare fiscal years.
- Fiscal year 2004 amounts reflect information from the completed financial results and underlying records.
- Fiscal year 2005 amounts represent validated estimates based on the reported amounts. At the time of this report, the State's FY2005 financial results and underlying records are in the process of being finalized.

Components of the Savings

Additional description is provided below. A complete summary of each effort is provided in the full Deloitte Consulting LLP report.

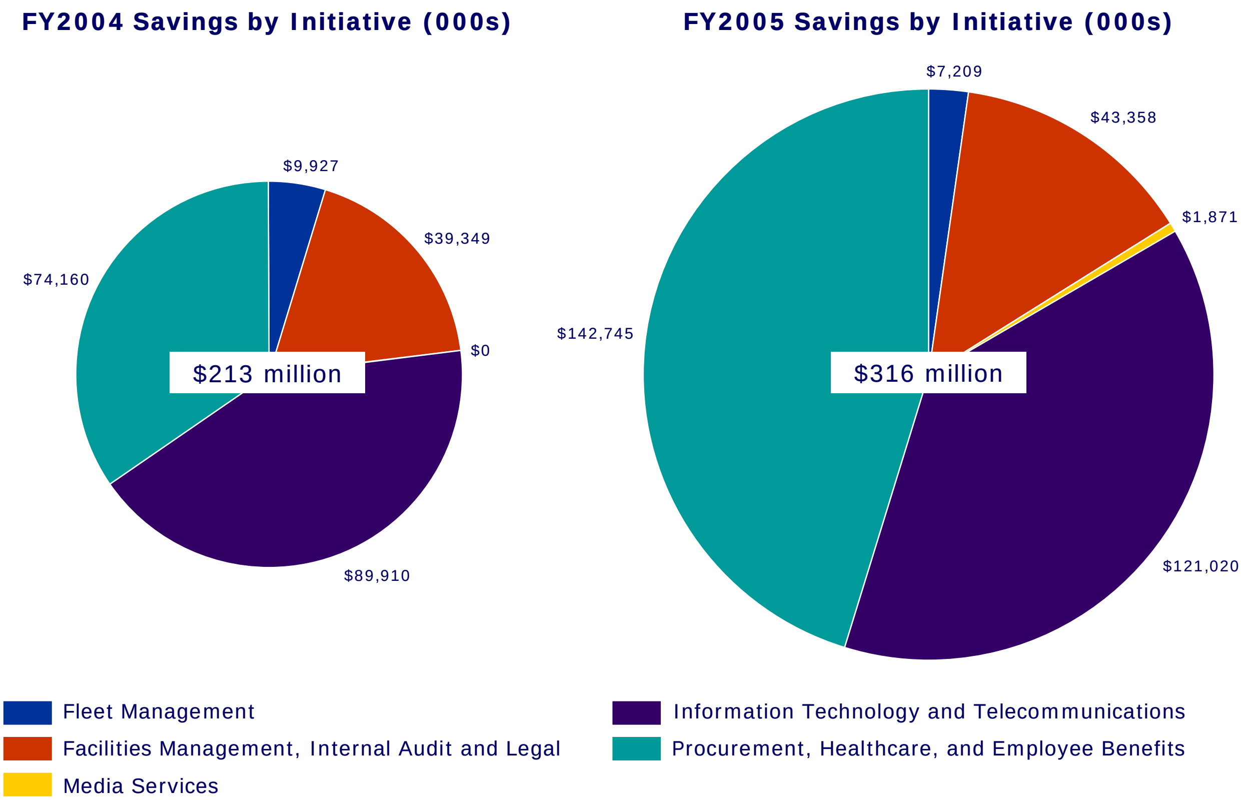
Savings Categories	Example projects	Total ($000)
Reduction in Budgeted Spend	Reduction in personnel costs	$ 181,625
Enhanced Reimbursement through increased collection of available federal funds	Improved medical reimbursements from federally funded programs	$ 123,908
Rate Reductions	Lower per-unit rates for commodities, IT purchases, and healthcare premiums	$ 73,139
Reduced Baseline Appropriation	EIRF billings for IT amounts	$ 64,845
Volume Reductions	Vehicle cuts and associated maintenance costs, reduced hours of outside contractors	$ 45,482
Cost Avoidance	Demand management activities including IT governance	$ 15,651
Cost Avoidance by leveraging federal programs	Transition of retirees to federally funded programs	$ 6,487
Enhanced Reimbursement benefiting the Federal government	Improved medical reimbursements from third-party providers to federal programs	$ 5,283
Cost Avoidance benefiting the Federal government	Elimination of anticipated payments to third-party healthcare providers	$ 5,214
Enhanced Reimbursement	Improved medical reimbursements from third-party healthcare providers	$ 5,014
Refunds/Credits	Billing credits from IT vendors	$ 1,798
New Revenues	Increased vehicle auctions	$ 1,103
	Total	$ 529,549

See Notes on prior page

Summary of Savings by Initiative

The $529 million validated savings total is presented below, by initiative, by year.

The Procurement, Healthcare and Employee Benefits effort and the Information Technology and Telecommunications effort produced the largest savings over the two fiscal year period.



Highlights of Initiatives and Programs

Summarized below are a number of actions that resulted in the validated savings reported for each Efficiency Initiative. Additional information on each individual Efficiency Initiative can be found in the Initiative Overview section of the full report.

Over 100 projects were examined using the savings validation approach. Through the analysis, duplicate projects were identified and excluded. Projects that had not been implemented or achieved benefits were estimated to have zero savings. Finally, some projects were combined for analysis purposes. The savings validated in this report include 54 individual projects within the Efficiency Initiatives. Each of these projects is described in the full Deloitte Consulting LLP report.

Fleet Management

Initiative Highlights:

- CMS instituted enhanced review procedures to assess requests for new vehicles. CMS Vehicles developed a vehicle acquisition template used to justify obtaining vehicles by the most economical means available. In addition to comparing purchase to lease to reimbursement, CMS added used GSA vehicles as an acquisition option.
- A variety of headcount management mechanisms were employed, including hiring freezes, vacancy extensions, and layoffs. The purpose of these measures was to reduce personnel services expenditures to align with budget constraints, reductions in budgeted spending authority, and increases in healthcare and other operating expenses.
- Approximately 1600 vehicles were disposed from the State fleet of 13,635 vehicles resulting in reduced fleet size (12,072 vehicles following the disposal).
- Approximately $1.1 million in one-time revenue was generated from the auction of the disposed vehicles.
- Vehicle maintenance and fuel costs were reduced. A comparison of agency Operation of Automotive Equipment ("OAE") expense indicates that a reduction in maintenance expenditures occurred in both FY04 and FY05, and annual fuel consumption dropped by approximately 1,300,000 gallons from FY03 to FY05.
- New vehicle acquisition costs were significantly cut (e.g., 124 new vehicle requests were cancelled in FY03). State expenditures for new vehicle acquisitions have been significantly reduced in FY04 and FY05 compared to FY03.

Facilities Management, Internal Audit, and Legal

Initiative Highlights:

- Consolidated Legal, Internal Audit, and Facilities Management personnel into CMS to gain efficiencies through resource management and assignment of responsibilities.
- Consolidation of headcount of the legal functions into CMS resulted in a total savings of $0.4 million, in addition to enabling improved provision of legal services to the agencies.
- Restructuring and consolidating the internal audit function resulted in total savings of approximately $10 million between FY04 and FY05
- Implemented a common audit software platform to standardize procedures and achieve efficiencies in workpaper documentation.
- Developed an approval process for agencies seeking the use of outside counselors resulted in a total savings of $5.4 million and helped to evaluate whether agencies were retaining low-cost, high-quality service providers.
- Reviewed State-owned space for capital planning purposes and introduced new facility utilization standards
- Adhered to a hiring freeze in addition to reducing positions via ERI and attrition reductions resulting in a recurring benefit of $1.5 million for Internal Audit and $32 million in Property Management.

Media Services

Initiative Highlights:

- Centralized efforts to provide information to the public resulted in focused communication and representation for the citizens and taxpayers of Illinois.
- Introduced the use of common technology platforms wherever possible allowing agencies to gain “real time” information regarding scheduling and availability.
- Improved access to accurate information resulted in improved decision-making and communication through consistent channels.
- Enhanced ability to manage the flow of information and respond to reporter inquiries (especially regarding cross-agency initiatives) helped ensure that consistent and accurate information is given to the public regarding all agencies and initiatives.
- Savings achieved from this initiative amounted to $1.9 million in FY05. The primary contributor to these savings included budgeted spend reductions of personnel services.

Information Technology and Telecommunications

Initiative Highlights:

- EIRF billings and appropriation cuts were employed to reduce State-wide IT spending.
- Contracts for telecommunications, software, and hardware/software support were renegotiated to achieve improved pricing and enhanced service.
- Vendor billing practices were scrutinized for inaccuracies to enable recovery of billing errors. Found and recovered $1,400,000+ in vendor billing errors.
- Services and pricing provided by IT contractors were assessed. Non-essential contracts were cancelled and pricing for essential contracted services was renegotiated.
- Terminated agreements with 87 non-essential IT contractors.
- The size of the State IT workforce was reduced through a number of headcount management measures. Reduced the size of the State's IT workforce by an estimated 300+ FTEs from FY03 to FY05.
- IT governance procedures were implemented to review and align agency IT investments. Stopped $8,000,000+ in spending on non-strategic IT projects.

Procurement, Healthcare, and Employee Benefits

Initiative Highlights:

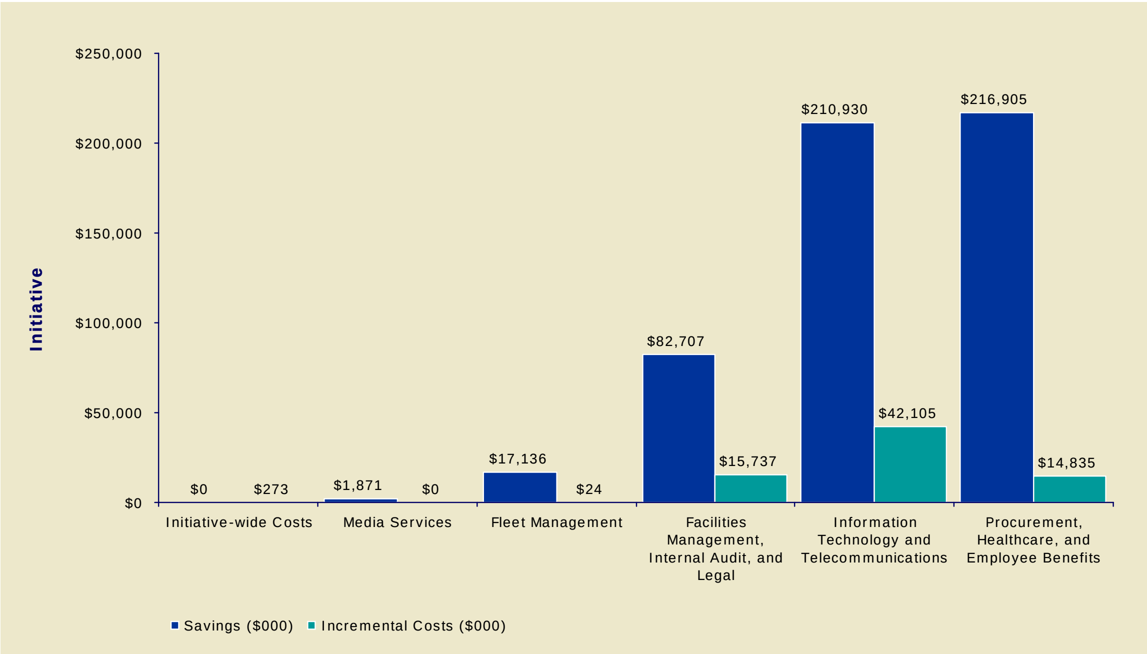
- Negotiated contracts with numerous vendors to improve prices paid by the State for commodities including items such as paper, garbage can liners, other janitorial supplies, and personal computers.
- Introduced new purchasing approval processes and procedures to better evaluate the cost/benefit of office purchases including items such as personal computers, copiers, and furniture.
- Approached healthcare providers and insurers to obtain reduced increases in healthcare costs.
- Implemented new processes and systems for identifying, tracking and submitting claims for reimbursement of program costs from either third-party healthcare providers or the federal government.
- Increased reimbursements by $124 million from the federal government that can be used to support programs and cover administrative support costs.
- Negotiated rate reductions with select hospitals and HMOs resulting in $2.2 million of savings.
- Achieved $34 million in savings from managing healthcare costs associated with newly implemented employee benefit plans.

Related Incremental Costs

To achieve the savings, the State incurred costs or investment. The Savings Validation Team identified costs that were apparent, significant, and quantified. Such incremental costs included vendor payments, new equipment or software, or losses in federal funds due to changes in program funding caused by the initiative.

The chart below highlights an overall comparison of the savings quantified through the Savings Validation effort to the quantified incremental costs.

Savings and Incremental Costs



Savings Validation Methodology

The team developed a consistent and objective savings validation methodology. Common accounting, management and performance measurement practices were used. The table following highlights key elements of the savings validation methodology:

Savings Validation Approach Elements	
Periods of Analysis	• A baseline for the analysis was developed using historical information before the initiatives were implemented. In many cases, this baseline was FY03. • FY 04 was analyzed and reported as actual savings. • FY 05 was analyzed and reported as estimates due to the status of year end close.
Savings Categories	The following saving categories were used to report savings: • ***Reduced Baseline Appropriation—***A reduction in available resources based on General Assembly actions or GOMB targeted cuts in certain areas. • ***Reduction from Budgeted Spend—***A reduction in the projected/budgeted resources (e.g., staff time, materials, and equipment) used for an activity or business process, as a result of a Savings Project. • ***Rate Reductions—***Obtaining lower rates or prices for goods or services purchased by the State. • ***Volume Reductions—*** Reducing the amount of a good or service used. Savings captured in this category included projects that intentionally sought volume reductions through direct action (e.g., demand management). • ***Refunds/Credits—***Payments made to the State by vendors as a result of a Savings Project. • ***New Revenue—***New streams of revenue instituted by the State. • ***Enhanced Reimbursement—***Improvements in the accuracy or completeness of a business process that generates a higher rate of recovery of funds from external organizations. • ***Cost Avoidance—***A benefit resulting from the prevention of a likely, but non-budgeted expenditure in the current or a future period. Savings were calculated by finding the difference between an actual expense or revenue amount and its “baseline”. The baseline for a project’s savings category was: • The same expense/revenue amount from a previous financial period, or • The amount that would reasonably have been expected to occur in the current period if the savings project had not occurred.
Federal Funds and Benefits	Where impacts to federal funds were known, caused by the Efficiency Initiative, and quantifiable, the validation team identified these impacts (both inflows and outflows of funds). Benefits impacting federal funds primarily related to enhanced reimbursements and cost avoidance—these benefits either increased State benefits (resulting in an offsetting cost to the Federal government) or resulted in federal benefits that came from improvements implemented by the State.
Incremental Costs	Where possible, incremental costs incurred for the project or initiative were identified and quantified to reflect the offsetting investment required to implement the project or initiative. In some cases, the incremental investment was external assistance, which typically was quantified and presented at the initiative level.
Evidence and Document-ation	Where possible, savings calculations were supported by information available from official and verifiable sources. For example, actual financial records from the following types of sources were used: • State Financial Reports • Comptroller Website (e.g., report expenditure by Object Code) • State Contract/Payment Records • State Payroll System

Recommendations for Sustaining Savings

Large business transformation programs, like the Efficiency Initiatives, typically pass through phases as they mature. At different stages, different areas are emphasized.

During inception and initial implementation of the Efficiency Initiatives, attention was focused on generating significant and tangible results quickly. As the program matures, the focus should widen to include stabilizing the results achieved to date.

The Savings Validation team identified areas of improvement.

Introduce the Savings Validation Approach into Operations

Evaluate the ongoing use of the methodology and how to integrate it with operations. The level of effort and resources necessary to complete an intense validation effort should be evaluated. The State should consider the underlying purpose or need for the validation:

Potential Future Purpose/ Need of Savings Validation	Impact
Analyze savings for projects not currently reported	• Dedicate resources to completing remaining project validations
Support billings to agencies	• Use methodology for establishing estimates and periodically reviewing results • Incorporate customer allocation drivers related to the savings quantified
Communication of initiatives/projects	• Train personnel on the methodology • Introduce a policy for consistent communication
Measure the incremental success of new projects and initiatives	• Integrate methodology into existing business case and performance management processes

Improve Interagency Oversight and Coordination

Introduce an interagency oversight structure to assist in addressing coordination efforts, accountabilities, and responsibilities for execution of initiatives across agencies. This would require engaging appropriate stakeholder agencies.

Key functions provided by an enhanced structure could be:

- Change leadership and people development within the transformation effort
- Monitoring, tracking and accountability for specific projects
- Facilitating and identifying new savings plans and opportunities with agencies
- Savings reporting and performance management against project targets

Review and Refine Funding and Billing Methodologies

Direct a combined CMS and GOMB team to perform the following actions:

- Schedule any anticipated transfers from the EIRF and adjust the funding analysis
- Document FY06 billings/budget adjustments and underlying estimates
- Design longer term funding and billing methodologies that transition the procedures and underlying methodologies into normal operations

Summary

Citizens across the United States are demanding more efficient services from their state governments — at reduced costs. State governments have also endured recent years of budget shortfalls.

The combination of these factors, along with a shrinking workforce, placed many legacy state government programs and services at risk. This outlook has led many states to begin organization-wide programs to transform state government.

States as diverse as Texas, Kentucky, and Kansas have chosen revolutionary change over incremental improvement. California's "Performance Reform" sparked a transformation with a proposal to consolidate agencies and cut budgets.

Peer states in the Midwest have also embraced significant transformation to provide their constituents with better service at a lower price. Minnesota's state government is evolving from agency silos to an enterprise model. Wisconsin has undertaken new initiatives, including technology consolidation, strategic sourcing and real estate. Michigan set forth a vision for redesigning state government to improve the business climate and quality of life.

As with any transformation effort, the actions and results seen in the State of Illinois Efficiency Initiative programs will require ongoing effort and focus. The ability to sustain and enhance the benefits will be dependent on a continual evaluation of areas for improvement.

Background

Beginning in 2003, Central Management Services (CMS) implemented a number of improvement and Efficiency Initiatives to streamline State government. These Efficiency Initiatives were promoted and instituted as part of the Governor's process to transform State government. As with any improvement initiative, preliminary savings were estimated for these Efficiency Initiatives to determine the potential opportunity and return anticipated. Estimated savings were defined at various points in the planning, contracting, and proposal processes. Many of these estimates were previously communicated to other State agencies and public sources in anticipation that actual results, when available, would be compared to initial estimates.

Since these initial estimates were developed, the Efficiency Initiatives have progressed and are generating savings that required further analysis, validation, and communication. An important part of managing cost initiatives is continuing to gauge success and identifying areas for additional improvement based on lessons learned. Thus, CMS initiated a Savings Validation for the purposes of:

- Reviewing actual savings captured from the Efficiency Initiatives
- Comparing these results with original estimates
- Measuring the success of implemented improvements
- Provide a framework to be used for future efforts

As part of the Savings Validation effort, Deloitte Consulting LLP (Deloitte Consulting) was hired to assist the State in defining an approach for quantifying and reporting savings. Additionally, Deloitte Consulting assisted in the review of actual results using this approach to evaluate consistency and thoroughness due to the increased emphasis on actual savings results. The combined CMS and Deloitte Consulting team systematically applied a consistent validation approach to the Efficiency Initiatives and underlying projects within the scope of the validation effort—noting exceptions and areas for continued analysis where data and resources were unavailable to present savings information in a consistent and thorough manner.

The key elements of the savings validation approach included:

- A statement of clear objectives of the effort
- A description of the overall approach for users and project participants
- Definition of roles and responsibilities
- A template for summarizing project savings and results
- Instructions for completing the project savings template
- Guidance on savings models, documentation, accounting treatment, and other key concepts

The following sections highlight some of the key elements of the savings validation approach. The full approach is included in Appendix B.

Objectives

The objectives of the savings validation effort were to:

- Measure financial and non-financial benefits realized by the State as a result of the Efficiency Initiatives implemented
- Document and support the savings measurements with evidence, establishing whenever possible a clear link to official records of actual financial transactions (e.g., expenditure reports, vendor invoices, payments, etc.)
- Conclude the analysis of FY04 savings by producing calculations for that financial period (validated as of the report date)
- Produce good faith projections of FY05 savings based on information available at the time of this report (FY05 activity and financial records were not yet complete). The analysis was completed as of September 30, 2005.

Key Concepts within the Savings Validation Approach

Financial Periods

Three historical financial periods were considered in the effort:

- Fiscal Year 2003 (July 1, 2002 – June 30, 2003) (primarily used as the baseline year)
- Fiscal Year 2004 (July 1, 2003 – June 30, 2004)
- Fiscal Year 2005 (July 1, 2004 – June 30, 2005)

Evidence / Traceability

Whenever possible, savings calculations were supported by information available from official and verifiable sources. For example, “actuals” from the following types of sources were used:

- State Financial Reports
- Comptroller Website (e.g., report expenditure by Object Code)
- State Contract/Payment Records
- State Payroll System

The goal was to establish a traceable link from official records of actual financial transactions/results to project savings.

For some savings projects, the link between activities and financial records was not directly aligned with one of the above sources. It may have been obscured by unrelated activities or clouded by high transaction volumes. In these cases, it was necessary to use a formula to calculate expenditure levels. One method of doing this was to use an activity level that can be measured, and multiply this number by an average cost rate to calculate expenditure. For example, a reduction from 20 FTEs to 17 FTEs would result in the calculation of three multiplied by average FTE cost to estimate savings in labor cost.

Savings Categories

In this report and in the underlying project name (Savings Validation), the term savings is broadly used to refer to all types of financial benefits gained through the impacts of the various transformation initiatives.

- **Reduced Baseline Appropriation.** Reduction in available resources based on across-the-board General Assembly actions or GOMB targeted cuts in certain areas.
- **Reduction from Budgeted Spend.** A reduction in the projected/budgeted resources (e.g., staff time, materials, equipment) used for an activity or business process, as a result of a Savings Project.
- **Rate Reductions.** Obtaining lower rates or prices for goods or services purchased by the State.
- **Volume Reductions.** Reducing the amount of a good or service used. Savings captured in this category will include projects that intentionally sought volume reductions through direct action.
- **Refunds/Credits.** Payments made to the State by vendors as a result of a Savings Project.
- **New Revenue.** New streams of revenue instituted by the State.
- **Enhanced Reimbursement.** Improvements in the accuracy or completeness of a business process that generates a higher rate of recovery of funds from external organizations.

The table below describes example savings projects and how they map to the above categories.

Cost Savings	Method	Description	Example
Reduced Baseline Appropriation	Reduction in available funds	Baseline spending reductions defined by General Assembly	Across the board budget cuts
Reduction in Budgeted Spend	Reduce Headcount	Reduced use of appropriations compared to historical amounts	Permanently reduced funded vacant positions and hiring freezes
	Reduce Activity Levels	Prevent or discontinue budgeted expenditures/activities	Cancelled project
Rate Reduction	Unit Price Reduction	A saving is realized by getting a better rate per unit	Negotiate a better rate for outside contractors
	Reduced "Off-contract" Spend	Improve price paid by shifting off-contract spend to preferred suppliers/contracts	Ensure agencies are using preferred contractors
Volume Reduction	Reduction in Quantity Purchased	Reduction in total spend through reduced quantity purchased (relative to forecast)	Reduced usage of contractors
Revenues	**Method**	**Description**	**Example**
Refunds/Credits	Refunds/Credits	Account credits or refunds made by supplier, typically based on achieving certain spend thresholds	Receiving a credit of billed amounts
New Revenue	New Revenue Streams	Finding new sources of revenue	Funds resulting from equipment auctions
Enhanced Reimbursement	Reimbursement Process Improvements	Improving the accuracy/completeness of a reimbursement process	Increasing federal fund participation on medical assistance programs

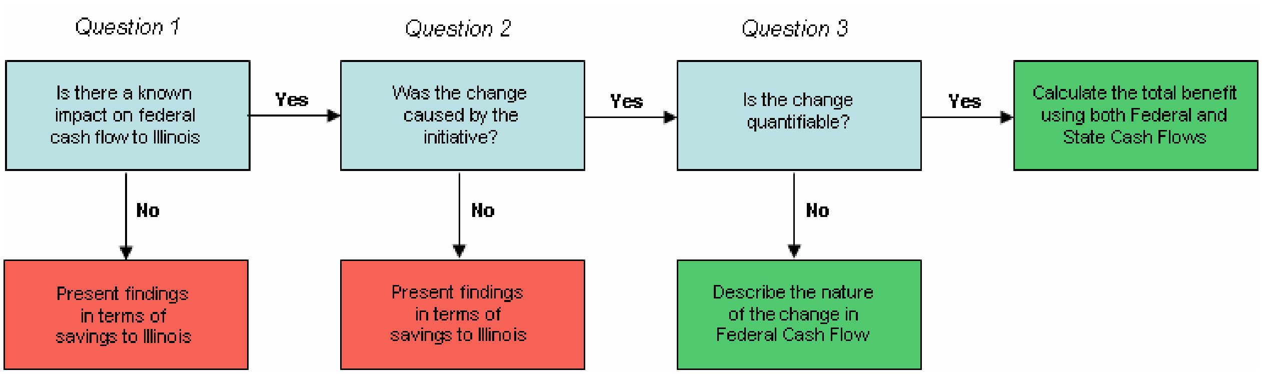
In addition to the above savings categories, benefits determined to be "cost avoidance" were additionally calculated and presented. "Cost Avoidance" is a type of benefit resulting from the prevention of a likely, but non-budgeted expenditure in the current or a future period. Examples may include:

- For a business process with an expanding work load, implementation of automated procedures that allow the organization to avoid the creation of additional positions
- Adopting practices to extend the life of a class of assets, resulting in a reduction in the rate of replacement

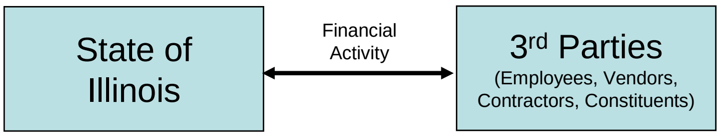
An important aspect of the savings achieved by the State of Illinois is the change in the flow of funds between Illinois and the Federal government resulting from savings initiatives.

Like all states, Illinois shares the costs of many of its programs and services with the Federal government. Thus, in some cases, a portion of savings achieved by a specific savings initiative could be shared with the Federal government.

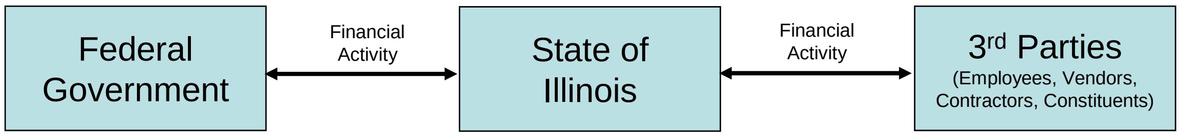
The Savings Validation team used the decision criteria described below to analyze and characterize changes in federal funds for each savings initiative.



In most cases, changes in Federal funds were nonexistent, immaterial, or not caused by the savings initiative being validated. In these cases, the team focused on validating savings by documenting financial activity between the State and '3rd Parties' (its employees, contractors, vendors, and constituents).



In cases where there was a known, quantifiable Federal impact caused by a savings initiative, the team included funds between the Federal government and the State of Illinois in its analysis and findings. Benefits impacting Federal funds primarily related to enhanced reimbursements and cost avoidance. These benefits either increased State savings (resulting in an offsetting cost to the Federal government) or were Federal benefits from improvements implemented by the State.



Baseline

Savings were calculated by finding the difference between an actual expense or revenue amount and its "baseline." The baseline for a project's savings category was:

- The same expense/revenue amount from a previous financial period, or
- The amount that would reasonably have been expected to occur in the current period if the savings project had not occurred

Incremental Cost Categories

New expenditures made for the purpose of initiating or implementing a savings project.

Amounts included as incremental costs were new investments, meaning only those expenses that would not have occurred, or money that would not have been spent, if the savings project had not been initiated.

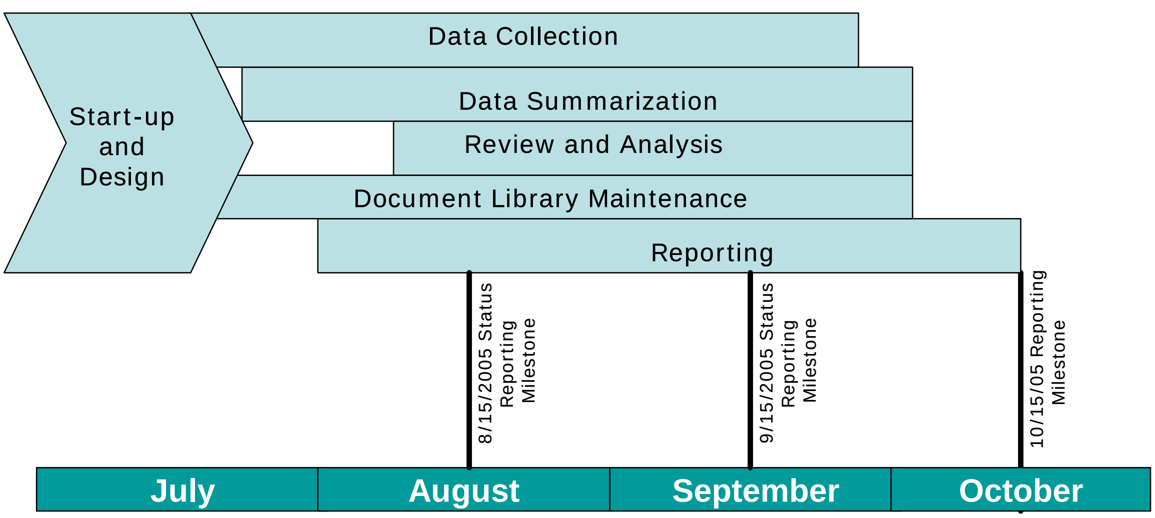
Examples of investment costs include purchasing equipment, contracting with consultants, or creating a staff position for a specific savings project or initiative.

It is important to quantify these costs to support a complete and reasonable assessment of each of the savings projects individually and of the overall effort in general.

Project Approach

Based on the above methodology, the combined CMS and Deloitte team applied a project approach for implementing the methodology and completing the savings validation effort. The following section highlights the key elements and timing of the project approach.

The diagram below illustrates the project's major tasks and related timing:



 Report Date: October 2005

Start-up and Design

Established the approach and standards for completing the savings validation effort. This included planning the effort, mobilizing resources, designing validation guidelines and templates, establishing project management procedures, and monitoring status and completion. Key activities completed during this step included:

- Definition and communication of roles and responsibilities
- Development and distribution of the validation approach and related tools
- Definition and implementation of project management tools

Data Collection

Activities included in this task include:

- For each Efficiency Initiative and related Savings Project, a logical, supportable model (i.e., formulas) for calculating actual savings was developed. The goal was to build new models or refine previous models to produce actual measurements of savings.
- Gathered data, supporting evidence, and source documentation for input to the financial models. Ideally, data used in calculations was directly traceable to the State's official financial records (e.g., agency financial reports, the Comptroller's website, expenditure report by object code, vendor contracts and payments, payroll records, etc.).
- Teams evaluated methods used by other organizations to identify leading practices for savings validation efforts.

Data Summarization

Through this step, we designed, built and populated a data repository to support summary reporting requirements. An Excel repository was developed to track savings amounts.

Document Library Maintenance

In an effort to document and catalog supporting documentation, the team developed and implemented procedures for the submission, indexing and retention of savings validation documents. Additionally, materials related to previous savings estimates were archived.

Review and Analysis

The team analyzed and resolved issues that may have arose regarding financial models or evidence, and reviewed, finalized and approved savings calculations.

Reporting

This task included finalizing validation reports and documentation; responding to inquiries; and organizing and summarizing the results of the individual savings validations into an overall report. Key reports included:

- Periodic reporting—conducted through bi-weekly Executive Advisory meetings
- August 15 status report—drafted and distributed to CMS management and Executive Advisory Committee members
- September 15 status report—drafted and distributed to CMS management and additionally served as a template for the final report
- The final validation report

Overview of Initiatives

The following section summarizes the findings of the savings validation approach. Key elements reported by initiative include:

- **Initiative background** provides a summary of the initiative along with highlights regarding actions taken and related timing.
- **Financial benefits** summarizes savings calculated and validated through the savings validation effort in the previously defined savings categories (e.g., budgeted spend reductions, enhanced reimbursement).
- **Qualitative benefits** discusses initiative-specific benefits in the areas of service quality, use of technology, decision making, and business processes that are improvements that cannot be quantified but are important to the overall benefit of the State.
- **Vendor Involvement and Other Incremental Costs** summarizes the participation of contractors in the initiative along with any associated costs of these vendors. Additionally, any significant investments (e.g., hardware, software) were also identified where possible.
- **Key Stakeholders/Agencies Impacted** highlights key parties (internal or external) that may have interests or concerns with the initiative.
- **Anticipated future benefits** discuss benefits that can be reasonably assumed to continue.

The initiatives included in the analysis and presented in the following pages include: Fleet Management; Facilities Management, Internal Audit and Legal; Media Services; IT and Telecom; and Procurement, Healthcare Services, and Medical Benefits.

 Report Date: October 2005

Fleet Management

Initiative Background

Executive Order 2003-2 in 2003, titled "Executive Order Mandating a Freeze on the Acquisition of State Motor Vehicles and the Implementation of a Comprehensive Review of Potential Cost Savings Associated with Motor Vehicles," recognized the need to preserve the State's economic resources and regularly examine the State's assets and expenditures to ensure cost effectiveness as it relates to State owned vehicles. CMS received authority to analyze the State's vehicle fleet and make recommendations on the cost effectiveness of the management and operations of the fleet.

Executive Order 2 required agencies to report their fleet inventories. It also required CMS to prepare a summary report on the fleet as a whole with recommendations for vehicle reductions and cost cutting. As a result, CMS Vehicles proceeded to collect approximately 1600 vehicles for disposal from the State fleet of 13,635 vehicles resulting in reduced fleet size (12,072 vehicles following the disposal), and cutting fleet operating costs. Another result of the fleet cuts was increased revenues generated from the auction of the vehicles that were cut.

CMS also instituted enhanced review procedures to assess new vehicle requests. CMS Vehicles developed a vehicle acquisition template used to justify vehicle purchases. In addition to comparing purchase to lease to reimbursement, CMS added used GSA vehicles as an acquisition option. As a result of these new governance and acquisition procedures, new vehicle acquisition costs have been significantly reduced (e.g., 124 new vehicle requests were cancelled in FY03 pursuant to Executive Order 2). State expenditures for new vehicle acquisitions have been significantly reduced in FY04 and FY05 compared to FY03.

The State's smaller fleet size resulted in reduced vehicle maintenance and fuel costs. A comparison of agency OAE (Operation of Automotive Equipment) lines excluding fuel indicates that a reduction in maintenance expenditures occurred in both FY04 and FY05. An analysis of fuel expenditures indicated that annual consumption has decreased by more than 1.3 million gallons since FY03.

Additionally, Division of Vehicles has used a variety of mechanisms including hiring freezes, vacancy extensions, and layoffs to manage headcount.

Financial Benefits

As part of the Savings Validation effort, the team analyzed specific projects implemented within the Fleet initiative. This analysis resulted in quantifiable benefits attributable to fleet management. The following table highlights the savings achieved and the nature of the savings.

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/ activities	• Reduction in Personnel Costs	$ 998	$ 1,165	$ 2,163
Volume Reduction	Reduction in total spend through reduced quantity purchased (relative to forecast)	• Discontinued Maximus Contract • Vehicle Acquisition • Fleet Cuts (Maintenance & Fuel)	$ 7,807	$ 6,000	$ 13,807
Refunds	Cash reimbursements made by supplier, typically based on achieving certain spend thresholds	• Parts Recovery	$ 19	$ 44	$ 63
New Revenue	Finding new sources of revenue	• Fleet Cuts (Vehicle Disposals)	$ 1,103	$–	$ 1,103
Total			$ 9,927	$ 7,209	$ 17,136

Notes:

- The amounts presented in the above information were based on financial analysis performed by the validation team.
- The financial analysis applied the savings validation approach outlined separately in this report.
- The financial analysis relied on information collected from State resources and underlying documents along with assumptions that were necessary to compare fiscal years.
- Fiscal year 2004 amounts reflect information collected from the completed financial results and underlying records. Fiscal year 2005 amounts represent validated estimates based on the reported amounts. At the time of this report, the State's FY2005 financial results and underlying records are in the process of being finalized.
- Included in the above fleet management savings are approximately $2 million of savings from volume reductions that occurred in FY03. Since this initiative was started prior to the reported period, these amounts were included to demonstrate the savings attributable to this function.

Qualitative Benefits

In addition to the quantified financial benefits, qualitative benefits attained through the initiative were identified and discussed as part of the savings validation approach. The below table highlights significant benefits achieved by the initiative that continue to improve government, its internal and external services, and the costs at which these services are provided.

Benefits	Outcome
Improved Service Quality	• More detailed information, better accountability and tracking and better fleet management. • Reconciliation of CMS and agency fleet data resulted in error correction.
Improved Decision Making	• Fleet cost data collection and use justification analysis to be performed prior to vehicle approvals. • Identified commuting miles for management decision-making. • Fleet analysis, which resulted in cuts, gave agencies and CMS better insights into where vehicles are justified. Reducing fleet size where vehicles were used primarily for commuting resulted in increased compliance with the goals of the Executive Order. It also allowed for the remaining fleet operating cost funds to be prioritized to essential vehicles. It should be noted that Division of Vehicles implemented a vehicle acquisition template to enable cost analysis of agency vehicle acquisition requests. The template compares purchase, lease, and reimbursement for cost-effective fleet acquisition decisions.
Improved management of business process	• CMS coordinated the compliance of Executive Order 2. • Resulted in improved cash flow for the vehicles fund enabling more timely vendor payment to keep fleet goods and service costs down. • At the Direction of the Governor's Office, agencies and CMS collectively identified excess assets in the State fleet and eliminated them. In the process, agencies and CMS became more informed on the makeup of the fleet and costs associated with having them in order to prioritize what vehicles should be sustained.
Improved Data Quality and Accessibility	• Provided data on fleet to assist in determining efficiency of vehicle acquisition versus reimbursement or other modes of transportation. • A reconciliation of CMS and agency fleet data resulted in better fleet data management and accountability. • The study also illuminated the need for one source for fleet cost data, which currently resides in multiple, redundant systems lacking necessary cost data for development of baselines and for decision-making.
Improved Technology Leverage	• In order to fully comply with Executive Order 2 and meet the goals of the CMS Fleet Efficiency Initiative, agencies and CMS had to have data to quickly evaluate fleet and prioritize vehicles necessary to agency missions. To accomplish this, the Division of Vehicles used current data supplemented by data from agency reports and surveys to develop a database of additional fleet information not previously captured including up to date mileages, categorized vehicle use justification, location and driver information.

Vendor Involvement and Other Incremental Costs

CMS and State agencies planned and implemented Executive Order 2 and associated actions. The State did engage Maximus, Inc. to assist with fleet management efficiency assessment efforts. The savings attributable to this work are still in process, but the incremental cost has been included in the amount of $17,912 in FY04 and $6,548 in FY05.

Key Stakeholders/Agencies Impacted

Stakeholder Group	Interest/Concerns	Addressing the interest/concern
Agencies	• Reduction in vehicle availability • Denial of new vehicle requests	• Significant trends (budgetary constraints, reduced State workforce, reduced cost of telecommunications, rising fuel costs) have created a situation in which a smaller State fleet is appropriate.
Division of Vehicles Employees	• Loss of positions	• Budgetary constraints created a situation which required reduction in personnel services expenditures.

Anticipated Future Benefits

Expected future benefits of the Fleet Efficiency initiative:

- More efficiently managed fleet (balancing age of fleet with maintenance costs and other travel costs)
- Improved State fleet fuel efficiency

Facilities Management, Internal Audit and Legal

Initiative Background

Executive Order 2003-10 in 2003, titled "Executive Order to Consolidate Facilities Management, Internal Auditing, and Staff Legal Functions," recognized the inefficiencies currently present within many of the State's operations and support functions. Based on this recognition, the Governor assigned authority to Central Management Services (CMS) to improve administrative functions with the overall goal of gaining operational efficiencies, reducing organizational risks, and providing future cost savings.

The Executive Order mandated that agencies consolidate similar functions and efforts previously housed at their individual agencies. Additionally, the Executive Order assigned new responsibilities and authority to CMS. CMS subsequently initiated a number of Efficiency Initiatives to fulfill its new role and responsibility of transforming administrative and shared service functions within the State, focusing on operations that are not part of an individual agency's core mission.

Within the internal audit function starting in October 2003, the State restructured and consolidated internal audit staff and senior management positions. The restructuring and consolidation was intended to reduce operating costs, improve standardization and knowledge management within the internal audit services, and introduce a more effective enterprise-wide risk model. These efforts, complemented by ongoing business process improvement and the use of new audit techniques and tools, have positioned the internal audit function to more effectively and efficiently serve the State's needs.

Similarly, legal services were consolidated across agencies into a single function. This consolidation was initiated in November 2003 with an initial effort to identify and consolidate positions associated with Personnel, Contracts, Procurement, and Labor Relations. After this initial consolidation was performed, renewed efforts to refine the structure and identify additional consolidation efforts occurred; and possibilities for further improvements continue to be evaluated. Additionally, the consolidation of legal services resulted in increased emphasis on improved procurement practices within this function.

Two specific efforts to improve underlying spending (besides reduced personnel costs) included improved and rationalized purchasing of online research services and outside counsel. The new enterprise-wide legal services function can now renegotiate a single master contract for online legal services; this historically has been managed and procured through various agencies. Also, the consolidated legal services function increased the visibility of outside legal services and introduced new procurement practices that better assess costs associated with outside legal counsel, and thus improve the ability to reduce hourly charges incurred for these services.

Executive Order 2003-10 further authorized the consolidation of facilities management for agencies, offices, divisions, departments, bureaus, boards and commissions directly responsible to the Governor into the Department of Central Management Services. The purpose of the consolidation of facilities management was to increase efficiency and produce cost savings in the administration of State government; coordinate certain common real estate, lease and contract management functions; and establish State-wide policies or procedures that coordinate the facilities management of differing agencies.

The consolidation planning began in July 2003 and accelerated in January 2004 when a Request for Proposal was awarded to provide oversight and professional asset management services for all State owned and leased real estate. Note: Savings anticipated in the facilities management area have not fully been realized partially due to vendor issues and litigation.

Prior to the consolidation efforts described above, the internal audit and facilities management functions across the State implemented hiring freezes resulting from the Governor’s Executive Order 2003-1. Holding these personnel levels constant have resulted in significant cost reductions in these functions.

Financial Benefits

As part of the Savings Validation effort, the team analyzed specific projects implemented within the Internal Audit, Legal Services and Facilities Management initiatives. This analysis resulted in quantifiable benefits attributable to these functions. The following table highlights the savings achieved and the nature of the savings.

Internal Audit

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/ activities	Reduction in Personnel Costs	$ 6,376	$ 6,926	$ 13,302

Legal Services

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/ activities	Reduction in Personnel Costs	$–	$ 388	$ 388
Rate Reduction	Savings are realized by paying a lower rate per unit	Reduced rates for online legal research services	$ 234	$ 470	$ 704
Volume Reduction	Reducing the amount of a good or service used	Reduced hours of outside counsel used	$ 1,539	$ 3,858	$ 5,397
Enhanced Reimbursement—Federal Benefit	Improvements in the accuracy or completeness of a business process	Dollars expected to transfer from the Federal Government to the State that never materialized	$–	$ (25)	$ (25)

Facilities Management

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/ activities	Reduction in Personnel Costs	$ 31,200	$ 31,741	$ 62,941

Total	$ 39,349	$ 43,358	$ 82,707

Notes:

- The amounts presented in the above information were based on financial analysis performed by the validation team.
- The financial analysis applied the savings validation approach outlined separately in this report.
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- Fiscal year 2004 amounts reflect information collected from the completed financial results and underlying records. Fiscal year 2005 amounts represent validated estimates based on the reported amounts. At the time of this report, the State's FY2005 financial results and underlying records are in the process of being finalized.

Qualitative Benefits

In addition to the quantified financial benefits, qualitative benefits attained through the initiative were identified and discussed as part of the savings validation approach. The below table highlights significant benefits achieved by the initiative that continue to improve government, its internal and external services, and the costs at which these services are provided.

Benefits	Specific Examples
Internal Audit	
Improved Service Quality	• Consolidated the internal auditing function from 26 designated agencies into a single State-wide function covering 36 agencies. Moving to a comprehensive State-wide internal audit function provides services to agencies that did not previously have an internal audit function and improves the efficiency and effectiveness of services State-wide. • Consolidated structure provides consistent standards and procedures and enhances objectivity and independence in the internal audit function.
Improved Technology Leverage	• Converted staff to a consistent Lotus Notes platform. • Improved application of technology through audit management software.
Improved Decision Making	• Identified risk-based auditing as an improved approach to meet the goals for the initiative and to allocate scarce resources. • Greater span of control by key decision makers to identify risk areas and allocate resources appropriately across the State.
Legal Services	
Improved Service Quality	• Smaller agencies historically did not have the funding available for online legal research. Consolidating the function allows for broader usage. • Implementation of single points of contact for legal services streamlined the process for acquiring services. • The introduction of a program manager within the function improved service delivery by overseeing work to ensure standardization, quality, and thoroughness.
Improved Decision Making	• The introduction of a program manager offers a single channel for coordinating and disseminating information by subject matter. • The availability and visibility of outside legal spend improves the State's ability to make procurement decisions based on rate and service criteria.
Improved management of business process	• New procedures were introduced where online legal research billings are reviewed and approved centrally, thus eliminating duplicate effort across multiple agencies. • Savings achieved through the initiative allowed for increased support services, thus reducing the administrative burden placed on General Counsels.
Facilities Management	
Improved Service Quality	• Consolidated services while reducing workforce costs by redesigning the facilities management organization.
Improved Decision Making	• Began a review of State-owned space; provided new data for strategic budgeting and capital planning. • Built the foundation for improved deferred maintenance and utilization analysis through an assessment of buildings, permanent fixtures and mechanical systems for 50 million square feet of State-owned space.
Improved management of business process	• Introduced new processes including facility utilization standards and master planning techniques.
Improved Data Quality and Accessibility	• Collected occupancy data including lease data to assist with future sourcing and leasing decisions.

Benefits	Specific Examples
Improved Technology Leverage	• Conducted a technology assessment to identify areas for improved use of technology within the facilities management function.

Vendor Involvement and Other Incremental Costs

Internal Audit				
Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs ($000s)
Thomas Blair	FY04	• Assisted in the consolidation efforts for internal auditing functions	• Completion of a pre-risk assessment interim audit plan, input to improve Quality Assurance, Risk and Audit Management processes	$30
E. Gene Greable	FY04	• Assisted in the consolidation efforts for internal auditing functions	• Completion of a pre-risk assessment interim audit plan, input to improve Quality Assurance, Risk and Audit Management processes	$24
Deloitte & Touche LLP	FY04 and FY05	• Assisted in development of State-wide risk assessment plan	• Planning, interviewing agencies, establishing, defining and developing the risk model, recommending an internal audit plan, completing training and installing AS/2 software.	$334
Other Incremental costs				
Incremental staff time (two contracted personnel)				$54
Materials and supplies (new audit software)				$119
Capital investments (office construction, laptops)				$178
Reduced cash payments due to shifts in audit concentration resulting from the new State-wide risk assessment model (potentially collected through current and future indirect cost allocations)				$1,033

Legal Services				
Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs ($000s)
Navigant Consulting	FY04 and FY05	Evaluated legal forms and contracting processes	Improved legal forms and processes	$306
Hildebrandt International	FY04 and FY05	Assessed consolidation opportunities	Consolidated legal function	$262

Facilities Management				
Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs ($000s)
Revere Group	FY04 and FY05	Assessment of facilities management organizational needs	Communication of findings/recommendations	$24
IPAM	FY03 through FY05	Review State-owned space for improving deferred maintenance and utilization analysis Assist with new process definitions Collect occupancy data for sourcing and leasing decisions	Due to a pending lawsuit, the deliverables outlined for this vendor were not available.	$13,373

Key Stakeholders/Agencies Impacted

Stakeholder Group	Interest/Concerns	Addressing the interest/concern
Internal Audit		
Agencies	• External audit coordination • The overall internal audit coverage will be reduced • Cost of internal audit services is higher post consolidation for some agencies	• Agencies have hired new positions to liaison with external auditors. Responsibility for the external audit and FCIAA compliance is a management responsibility. • For some agencies fewer audits are necessary due to risk assessment model. Audits that are being performed address the greatest areas of risk to the agencies. • Overall audit costs have been reduced as an enterprise.
Legal Services		
Agencies	• Personnel were removed from agency control as a part of the Phase I and Phase II consolidation	• Agencies should use CMS to secure non-agency-specific legal counsel regarding Contracts, Procurement, Labor Relations, and Personnel
Attorney General's Office	• Decreased scope of savings for Phase I and Phase II due to the desire of the Attorney General's office to consolidate attorneys within that office	• A limited number of attorneys were consolidated into CMS
Smaller Agencies	• Increased ability to purchase online legal services as a part of the Online Legal Research Initiative	• Not Applicable
State Police, Department of Corrections, and Department of Revenue	• Additional research capabilities are required beyond those covered by the Online Legal Research contract	• These agencies are allowed to purchase Online Legal Research services outside of the master contract
Lexis Nexus (and other online legal research providers)	• These providers were not chosen to be a part of the master online legal research contract	• More competitive bidding is expected when the online legal research contract comes up for bid again in 2007
Agencies currently using outside counselors	• Agencies now face an approval process in order to engage outside counselors	• Not applicable

Facilities Management		
Agencies	• Personnel were removed from agency control as part of the consolidation • State-wide standards have been established for office space reducing the authority of agencies	• Agencies will use CMS established protocols • Facility service agreements have been established to manage customer expectations
GOMB	• Capital investment may be necessary to produce longer term savings	• CMS and legacy agencies will need to plan in advance and request investments to allow for relocation and consolidation of existing office space

Anticipated Future Benefits

The future benefits anticipated from the internal audit consolidation and related efficiency projects include:

- Introduction of performance measures to evaluate the newly restructured organization
- Implementation of periodic reporting to the Office of the Governor resulting in improved executive oversight of risk management functions
- An increase in the number of audits focused on enterprise-wide or multiple agency issues
- Increased business process efficiencies through standardization and use of audit software
- Recurring financial benefits resulting from the headcount reductions

The future benefits anticipated from the legal services consolidation and related efficiency projects include:

- Enhanced competitive bidding from online legal research vendors when the current contract expires in 2007
- Improved management decisions moving forward for outside counselors as a result of CMS approval process

The future benefits anticipated from the facilities management consolidation and related efficiency projects include:

- Access to State-wide facility management occupancy data for deferred maintenance analysis and utilization planning
- Streamlined processes (e.g., purchasing, budgeting, accounting and federal reimbursement) as part of technology planning improvements

Media Services

Initiative Background

Executive Order 2004-2, in 2004, titled, "Executive Order to Reorganize Agencies by the Transfer of Certain Media Relations Functions to the Department of Central Management Services" authorized the consolidation of specific media relations functions of State agencies under the purview of the Governor into CMS. Media staff functions include public information coordination, graphic design, and web content services. This initiative will be accomplished in multiple phases. All agency-specific public information functions such as Freedom of Information Act (FOIA) requests and responses, internal communications, and marketing functions specific to an agency will continue to remain at the agencies.

By consolidating staff involved in media relations, a more efficient enterprise-wide organization will result, creating a consistent message for the State while reducing costs and maximizing the use of resources. The initial phase of the consolidation, the Public Information Officer Consolidation, occurred in August 2004. The second phase, the Graphic Artist Consolidation, became effective in July 2005. The final phase, the Web Content Consolidation, is in the planning stages of development.

Financial Benefits

As part of the Savings Validation effort, the team analyzed specific projects implemented within the Media Services initiative. This analysis resulted in quantifiable benefits attributable to fiscal years 2004 and 2005. The following table highlights the savings achieved and the nature of the savings.

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduce Baseline Appropriation	Baseline spending reductions defined by the Executive Order	Headcount reduction in consolidated agency	$ –	$ 235	$ 235
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/ activities	Reduction in personnel costs	$ –	$ 1,930	$ 1,930
Enhanced Reimbursement	Dollars that will not materialize	Dollars originally identified as revenue sources that are expected not to materialize	$ –	$ (294)	$ (294)
Total			$ 0	$ 1,871	$ 1,871

Notes:

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- Fiscal year 2004 amounts reflect information collected from the completed financial results and underlying records. Fiscal year 2005 amounts represent validated estimates based on the reported amounts. At the time of this report, the State's FY2005 financial results and underlying records are in the process of being finalized.

Qualitative Benefits

In addition to the quantified financial benefits, qualitative benefits attained through the initiative were identified and discussed as part of the savings validation approach. The below table highlights significant benefits achieved by the initiative that continue to improve government, its internal and external services, and the costs at which these services are provided.

Benefits	Specific Examples
Improved Service Quality	• Centralized efforts to provide information to the public which resulted in more efficient and effective communication and representation of the State • Ability to consolidate information and leverage best practices across PIOs • Ability to leverage specialist skills resulting in higher quality through consistent standards and protocol
Improved Technology Leverage	• Use of common technology platforms wherever possible (e.g., a single calendar) allowing agencies to more effectively schedule messaging and announcements
Improved Decision Making	• Easy access to accurate information improving the decision-making process and reducing the risk of inaccurate or incomplete information being distributed
Improved management of business process	• Ability to manage the flow of information and respond to reporter inquiries, especially regarding cross-agency initiatives

Vendor Involvement and Other Incremental Costs

The only quantified incremental cost was lost Federal reimbursement dollars ($.2 million) due to the consolidation and related initiatives – which was offset as a decrease in revenues. All resources applied in implementing the initiative were obtained internally.

Key Stakeholders/Agencies Impacted

Stakeholder Group	Interest/Concerns	Addressing the interest/concern
Legacy Agencies with PIO Officers (e.g., Agriculture, Aging, Capital Development Board, Central Management Services, Commerce & Economic Affairs, Human Services, Natural Resources, Office of State Fire Marshal, Veterans' Affairs, Environmental Protection Agency, Healthcare and Family Services, Historic Preservation Agency, Financial & Professional Regulation, Human Rights, Employment Security, Corrections, Emergency Management Agency, Labor, Transportation, Revenue, Public Health)	• Response Time • Expertise for Agency specific issues & pressures • Cost of providing services versus cost to individual agencies • Higher usage means more cost • Communication to the Governor's Office is from external entity	• The staff is equipped to handle situations and cross-trained to handle other agency accounts, should an emergency arise or when additional support is required. • Expertise was evaluated during selection. All agency PIO officers were hand picked for a specific skill set suitable to the user agency. If for some reason this isn't being provided, contact with the PIO office should result in action to rectify situation. • Direct communication from a user agency to the Governor's Office is frequent and plays a part in standard processes.
Office of the Governor	• Pressure from agencies due to cut in appropriation and the potential for services to decline	• Agencies pay for the services that are rendered improving the direct cost/benefit relationship between spending and services.
Various Media Outlets	• Concern there would be limited access to officials and messages	• Any change in systems will promote temporary discomfort until established relationships for protocol and procedures are

Stakeholder Group	Interest/Concerns	Addressing the interest/concern
	will be filtered	solidified. Relationships with media outlets were either pre-existing or established shortly thereafter. The PIO Consolidation has already successfully navigated through several General Assembly sessions with no disruption in the delivery of State government news.
Various Journalists	• Concern there would be limited access to officials and messages will be filtered	• Any change in systems will promote temporary discomfort until established relationships for protocol and procedures are solidified. Relationships with media outlets were either pre-existing or established shortly thereafter. The PIO Consolidation has already successfully navigated through several General Assembly sessions with no disruption in the delivery of State government news.

Anticipated Future Benefits

The anticipated future benefits are similar to the financial and qualitative benefits previously described. The State will experience a recurring financial benefit based on the consolidation and reduction of personnel and overtime costs. It will also more effectively use resources to communicate with the public about State of Illinois programs and services.

IT and Telecom Rationalization

Initiative Background

Pursuant to the effort to reduce the cost of State government and to improve services, **the Illinois Compiled State Statutes (20 ILCS 405/405-410)** were amended to grant authority for the Bureau of Communications and Computer Services (BCCS) to engage in a State-wide IT/Telecom rationalization effort. The goals of this initiative included:

- Achieving significant cost savings through the optimization of technology staff and resources;
- Developing and implementing technology standards to drive efficiencies and operational improvements;
- Developing a shared-services IT organization capable of delivering, measuring and maintaining improved service levels; and
- Transforming government by changing many of the policies relating to technology issues, including implementing IT strategic planning, governance and budgeting.

Through the IT and Telecom rationalization program, a variety of cost identification, cost management and cost reduction activities and processes were set in place. There was a significant decrease in IT spend over the FY03 to FY05 timeframe.

IT spend decrease was achieved by various means including, but not limited to, the following: introduction of IT governance; personnel reductions; contract negotiations; budget cuts; and initial implementation of shared services organization. There were both direct (CMS/Agency action-based) and indirect (behavioral changes) effects of the rationalization program, which led to savings for CMS, agencies, and the State as a whole.

Financial Benefits

As part of the Savings Validation effort, the team analyzed specific projects implemented within the IT and Telecom rationalization initiative. This analysis resulted in quantifiable benefits attributable to fiscal years 2004 and 2005. The following table highlights the savings achieved and the nature of the savings.

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduce Baseline Appropriation	Baseline spending reductions defined by General Assembly	EIRF Billing	$ 32,305	$ 32,305	$ 64,610
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/activities	Reduction in personnel costs	$ 30,791	$ 33,099	$ 63,890
Rate Reduction	Reduced costs per unit from vendors, and operational efficiencies from internal management of resources, are reductions in State costs which are passed on to customers in the form of rate reductions	Improved contractor pricing, lower long distance telephone rates, reduced data service rates	$ 10,842	$ 34,970	$ 45,812
Volume Reductions	Reduction in total spend through reduced quantity purchased (relative to forecasted spend)	IT Contractor reductions	$ 13,061	$ 13,217	$ 26,278
Refunds/ Credits	Cash reimbursements made by supplier, typically based on achieving certain spend thresholds	Credits and refunds from voice and data providers	$ 1,285	$ 450	$ 1,735
Cost Avoidance	Prevention of a likely, but non-budgeted, expenditure in the current or a future period	IT Governance	$ 1,626	$ 6,979	$ 8,605
Total			$ 89,910	$ 121,020	$ 210,930

Notes:

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- Fiscal year 2004 amounts reflect information collected from the completed financial results and underlying records. Fiscal year 2005 amounts represent validated estimates based on the reported amounts. At the time of this report, the State's FY2005 financial results and underlying records are in the process of being finalized.

Qualitative Benefits

In addition to the quantified financial benefits, qualitative benefits attained through the initiative were identified and discussed as part of the savings validation approach. The below table highlights significant benefits achieved by the initiative that continue to improve government, its internal and external services, and the costs at which these services are provided.

Benefits	Specific Examples
Improved Service Quality	• Designed and began implementation of a shared IT services organizational model • Created IT Competency model for the shared IT services organization • Service Level Agreements with 11 agencies • Implemented Service Level Reporting for IT • Implemented Customer Service Center
Improved Technology Leverage	• Defined the end-state vision for IT/Telecom capability • Defined the Enterprise Architecture • Created a State-wide Architecture Review Board (ARB) • Migrated Lotus Notes in CMS away from Mainframe • Launched the ICN consolidation • Initiated consolidation activities for: SQL Server, Websphere, CMS Tape • Consolidated IT infrastructure personnel for eleven key agencies • Defined the target technical environment and transition plans • Created the Communications Management Center (CMC) and Communications Solutions Center (CSC) • Rationalized CMS and ICN backbone data and video networks and initiated the implementation of the Video Network Migration • Developed network integration plan • Completed upgrade and migration to ICN backbone data network (Project Hercules) • Planned and initiated the implementation of the Video Network Migration
Improved Decision Making	• Gained insight into IT Spend • Renegotiated Enterprise License Agreements • Refined and operationalized IT governance processes • Tracked and measured IT governance effectiveness • Created enterprise architecture and strategy group (EA&S Group) • Developed business reference model and technical reference model • Developed technical product standards • Created an ERP strategy roadmap • Developed strategy and business case for records management and e-payment processing • Assessed State's email platforms and created a standardization plan • Developed business case for Dark Fiber • Developed business case for the DeKalb POP site • Developed and delivered the Telecommunications Master Plan and the IT master plan • Developed strategy/implementation plan for integration of ICN organization into CMS-(Project Nemo)

Benefits	Specific Examples
Improved management of business process	• Implemented the new governance model—contracts not renewed; projects stopped • Institutionalized the Enterprise Program Office (EPMO) • Established Agency Relationship Management capability • Improved job description management process between BCCS and Bureau of Personnel • Implemented standardized Change Control process • Developed Contractor Rationalization process • Developed project management toolkit to improve IT project management effectiveness • Developed HIPAA standards to avoid Federal penalties • Established baselines for telecom operational improvements • Developed new CSC processes and workflows • Created the shared services IT/Telecom organization to support BCCS operations • Developed Competency Map and training recommendations for BCCS telecom personnel • Developed policies that enable State to better manage telecom services usage and spend • Renegotiated telecom, hardware/software and maintenance contracts, resulting in significant savings
Improved Data Quality and Accessibility	• Initiated elimination of redundant Mainframe Package Software • Network migration of State Data Centers from Frame Relay to ICN

Vendor Involvement and Other Incremental Costs

Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs
Accenture	FY04 and FY05	• Analysis of the existing organization • Design of new shared services organization (IT) • Design and implement consolidation initiatives	• Improved job description management process between BCCS and Bureau of Personnel • Implemented standardized Change Control process • Consolidated IT infrastructure, personnel and assets for eleven key agencies • Conducted orientation sessions for the transition of IT infrastructure personnel into BCCS • Defined the target technical environment and transition plans • Created enterprise architecture and strategy group (EA&S Group) • Developed Contractor Rationalization process • Developed and delivered the IT Master Plan • Established baselines for IT operational improvements and SLA management • Developed project management toolkit to improve IT project management effectiveness • Developed Competency Map and training recommendations for BCCS IT personnel • Implemented IT budgetary planning and spend controls • Assessed State's email platforms and created a standardization plan	$15,748
BearingPoint	FY04 and FY05	• Conduct software, server, mainframe rationalization activities • Design and implement consolidation initiatives	• Initiated consolidation activities for: SQL Server, Websphere, CMS Tape • Initiated elimination of redundant Mainframe Package Software • Migrated Lotus Notes in CMS away from Mainframe	$10,880

Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs
			• Conducted detailed assessment of Agency IT environments, including servers, software and personnel • Performed statewide HIPAA assessment • Initiated elimination of redundant mainframe package software • Developed catalog of reference architecture and logical blueprints for future computing environments • Designed architecture for future state email platform	
EKI	March 2004 to June 2005	• Analysis of the existing organization • Design of new shared services organization (Telecom) • Design and implement consolidation initiatives	• Improved job description management process between BCCS and Bureau of Personnel • Implemented standardized Change Control process • Conducted orientation sessions for the transition of telecom infrastructure personnel into BCCS • Defined the target technical environment and transition plans • Developed Contractor Rationalization process • Developed and delivered the Telecommunications Master Plan • Developed the strategy and implementation plan for the integration of the ICN organization into CMS-BCCS (Project Nemo) • Managed the data network migration to the ICN • Created the Communications Management Center (CMC) and Communications Solutions Center (CSC) • Established baselines for telecom operational improvements • Developed new CSC processes and workflows • Created the telecommunications organization to support BCCS operations • Developed Competency Map and training recommendations for BCCS telecom personnel	$15,458
McKinsey			See Procurement Section	
Oilean ACL LLC/Terry Gallagher	FY04	• Assist with IT/Telecom RFP development	• Provided content for future RFP	$19

Key Stakeholders/Agencies Impacted

Stakeholder Group	Interest/Concerns	Addressing the interest/concern
Agencies consolidated into CMS	• Many agencies are concerned about erosion of services under consolidation	• Prior to changing anything in its new organization, CMS created baseline service delivery measurements and adopted SLAs covering all consolidated services.
All Agencies (Under Governor) using IT	• Agencies are reluctant to provide IT budget information to CMS and have concerns regarding reduced funding	• CMS role as budget analyst for State-wide IT needs to mature. CMS is now pursuing a new IT chart of accounts for use in State-wide accounting to eliminate reliance on self-reporting.

Anticipated Future Benefits

Sustained and enhanced qualitative benefits:

- Improved cost control
- Improved service quality
- Improved technology leverage
- Improved decision making
- Improved management of business processes
- Improved data quality and accessibility

Additional financial and qualitative benefits from new initiatives:

- Network migration spending reduction
- Microsoft enterprise license savings
- Desktop standardization
- Server consolidation
- Personal Information Management (email/calendar consolidation, 40+ platforms to one)

Procurement, Healthcare Services, and Medical Benefits

Initiative Background

Lastly, in 2003, CMS began a “center-led” procurement program to improve agencies’ spend on supplies and services. CMS launched a procurement initiative in August 2003, driven by a set of savings goals and complemented by efforts related to organizational change and process redesign.

Some of the efforts made through this initiative included renegotiating commodity-type contracts. Based on analysis of purchasing performed by the State along with market trends, the State was able to negotiate significant savings over the two year period with vendors. These negotiations reduced rates spent on common purchases or reduced the rate of increase anticipated for purchases.

Recognizing the larger opportunity to engage other agencies and functions in this initiative, CMS expanded the initiative to address medical benefit opportunities managed by the Bureau of Benefits and improvements/opportunities for increased Federal reimbursement for program spending within Department of Human Services (DHS). The effort included work with programs within DHS in analyzing and initiating claims for State spending that was allowable for reimbursement under federal programs. In addition to increasing the level of reimbursement, these efforts introduced new processes and improved the use of systems to identify, track and submit claims for reimbursement. The combination of these initiatives resulted in significant savings over the two year period analyzed.

In addition, premium rates paid to healthcare providers were renegotiated and employee medical plans were redesigned to manage the rate of increases. Both areas resulted in significant savings, and also improved the position of the State for future negotiations.

Financial Benefits

As part of the Savings Validation effort, the team analyzed specific projects implemented within the Procurement, Healthcare Services, and Medical Benefits initiative. This analysis resulted in quantifiable benefits attributable to fiscal years 2004 and 2005. The following table highlights the savings achieved and the nature of the savings.

Savings Categories	Category Description	Example projects	FY 04 Total ($000)	FY 05 Total ($000)	Total ($000)
Reduction in Budgeted Spend	Prevent or discontinue budgeted expenditures/ activities	Employee medical benefit changes	$ 531	$ 36,480	$ 37,011
Rate Reduction	A savings is realized by getting better prices with a supplier	Rate reductions from medical providers, commodity vendors, and utilities	$ 12,240	$ 14,383	$ 26,623
Enhanced Reimbursement	Improving the accuracy/complete-ness of a reimbursement process	Improved reimbursements from third party healthcare providers	$ 0	$ 5,308	$ 5,308
Enhanced Reimbursement—Federal Benefit	Improving the accuracy/complete-ness of a reimbursement process	Improved reimbursements from third party healthcare providers	$–	$ 5,308	$ 5,308
Enhanced Reimbursement—increased federal funds	Improving the accuracy/complete-ness of a reimbursement process	Improved and back claiming for reimbursable costs of Federally funded programs	$ 59,448	$ 64,460	$ 123,908
Cost Avoidance	Prevention of a likely, but non-budgeted State expenditure in the current or a future period	Demand management activities related to PCs and other office equipment, elimination of anticipated payments to third party healthcare providers due to improved processes	$ 1,239	$ 5,807	$ 7,046
Cost Avoidance—Federal Benefit	Prevention of a likely, but non-budgeted, Federal expenditure in the current or a future period.	Elimination of anticipated payments to third party healthcare providers due to improved processes	$ 27	$ 5,187	$ 5,214
Cost Avoidance—increased use of Federal programs	Prevention of a likely, but non-budgeted, expenditure in the current or a future period which results in a Federal cost	Migration of retirees to a Federally funded program	$ 675	$ 5,812	$ 6,487
Total			$ 74,160	$ 142,745	$ 216,905

Notes:

- The amounts presented in the above information were based on financial analysis performed by the validation team.
- The financial analysis applied the savings validation approach outlined separately in this report.
- The financial analysis relied on information collected from State resources and underlying documents along with assumptions that were necessary to compare fiscal years.
- Fiscal year 2004 amounts reflect information collected from the completed financial results and underlying records. Fiscal year 2005 amounts represent validated estimates based on the reported amounts. At the time of this report, the State's FY2005 financial results and underlying records are in the process of being finalized.

Qualitative Benefits

In addition to the quantified financial benefits, qualitative benefits attained through the initiative were identified and discussed as part of the savings validation approach. The below table highlights significant benefits achieved by the initiative that continue to improve government, its internal and external services, and the costs at which these services are provided.

Benefits	Specific Examples
Improved Service Quality	• Standardized procurement policies • Consistent program delivery at lower costs as demonstrated by renegotiations with vendors, hospitals and HMOs • Increased understanding of the value of the employee benefit package • Better alignment of program participants with program eligibility resulting in improved service delivery and cost reduction
Improved Technology Leverage	• Enhanced use of claim data and related systems to track and identify opportunities for Federal reimbursement • Improved use of computer-based diagnostic equipment for vehicle emission testing • Enhanced use of purchasing data which will enable the State to better track purchases
Improved Decision Making	• Increased understanding of purchasing trends by commodity • Implementation of a platform for increased fiscal accountability and decision-making through better transparency and insights regarding the State purchases
Improved management of business process	• Implementation of new processes to convert grant programs to fee for service programs to further enable and improve the Federal reimbursement process • Improved ability to track and resubmit errors in the Federal claiming process • Improved procedures for analyzing purchases • Introduction of new governance procedures for managing the cost/benefit of purchases • Improved negotiation skills and processes

Vendor Involvement and Other Incremental Costs

Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs
McKinsey	FY04 and FY05	• Analysis of targeted opportunity area • Facilitation of leading back claiming activities across programs • Project management of timeline and implementation	• Analysis of purchasing and identification of commodities and other contracts for re-negotiation • Assistance with renegotiation • Analysis of DHS programs available for increased Federal reimbursement • Design and implementation of new processes and use of systems for capturing increased reimbursement	$14,714

Vendor Costs				
Vendor	Duration	Role	Key Deliverables	Related Costs
BearingPoint	FY05	• Development of purchasing analysis tools	• Short term tool to analyze purchases • Development of a supplier relationship management program • Training to support deliverables	$23
Brubaker and Associates	FY04 and FY05	• Update master usage database • Prepare and revise RFPs for facilities • Analysis of utility programs and comparison of rate to benchmarks	• Projected savings analysis • RFP procurement instructions • Monthly analysis of utility spend by facility compared to benchmark prices	$98

Key Stakeholders/Agencies Impacted

Stakeholder Group	Interest/Concerns	Addressing the interest/concern
Commodity Vendors	• Competition promoted by the State through better analysis and sourcing techniques increases pressure on vendor margins	• Promote openness in the bid process to enable vendors to understand areas for improved delivery
Federal Government	• Increased reimbursements to IL may impact the share of funds received by other states	• Gauge and balance program reimbursement thresholds and interactions with Federal programs
DHS program personnel	• Increased effort required to analyze and submit/resubmit claims	• Balance investment required in obtaining enhanced reimbursement with actual dollars achieved
Citizens	• Consistent program delivery at lower costs (e.g., vehicle emission testing, DHS programs)	• Continue to examine programs that offer opportunities for improvement without service disruption for citizens
State employees	• Changes to benefit programs may alter healthcare choices. Also, new processes and procedures required change management efforts	• Ongoing communication and training of changes to inform employees and alleviate misconceptions
Agencies	• Reduced autonomy through increased center-led initiatives	• Clearly define and communicate the distinction and ownership of program, agency, and enterprise responsibilities

Anticipated Future Benefits

Future benefits that can be anticipated if the initiative is sustained and adequately implemented include:

- Continued rate reductions in other commodities
- Increased purchasing leverage by the State through consolidated master contracts
- Improved fiscal accountability and reporting by further researching and examining purchasing decision
- Ongoing federal revenue enhancements of DHS programs through new processes and systems used to track and submit healthcare claims

Recommendations

In the course of its work, the Savings Validation team identified a number of observations related to the transformation initiative and underlying projects, the savings validation approach, and their combined sustainability in future years. The following section describes these observations and recommendations.

Background

Large change initiatives typically pass through three phases as they mature.

The State's Efficiency Initiatives have largely completed the Initiate/Implement phase and the State is now taking steps to Stabilize/Consolidate improvements realized to date, while planning efforts designed to Sustain/Optimize future benefits.

During the latter part of FY03, while faced with significant budget pressures, the State of Illinois initiated a program of efficiency measures designed to generate financial and service benefits to the citizens of the State of Illinois. The initial focus of this effort was to quickly implement a large number of measures across a wide set of functional areas to generate positive financial results during the FY04 and FY05 budget periods.

The State was able to generate quick results. As documented in this report, the State achieved more than $500 million in savings as well as many important service and process improvements during the fiscal 2004 and 2005 periods.

The State has been stabilizing the Efficiency Initiatives by establishing routine procedures designed to consolidate gains made to date. A few examples include:

- Designing and implementing a validation approach to evaluate success of the various initiatives
- Updating or developing new policies and procedures
- Introducing service agreements to improve operations management and interaction with agencies
- State-wide consolidation of organizations and related structures to improve delivery of services
- Implementation of knowledge management techniques and tools to sustain savings areas

Along with these efforts, the Savings Validation team identified additional areas for improvement, which in both the short and longer term views of the efficiency effort and its maturity lifecycle may offer increasing success with greater sustainability.

Introduce the Savings Validation Approach into Operations

Observation

The savings validation approach developed and implemented through this project was outlined and introduced to meet specific, immediate needs. These needs centered on developing a consistent, thorough approach for analyzing and documenting savings related to initiatives that were previously estimated from the various initiatives implemented since fiscal year 2003. The approach focused on analyzing and presenting savings achieved during fiscal years 2004 and 2005 in a transparent manner and built upon previous efforts conducted by CMS to estimate savings anticipated by various projects. In addition to these drivers, the approach was developed to address findings highlighted by the Office of the Auditor General related to supporting documentation to validate savings amounts communicated and used for budget setting and billing purposes.

The Savings Validation effort was a relatively quick but intense project that required key CMS staff and leadership to devote significant amounts of human resources across the State of Illinois.

Recommendation

With the immediate needs addressed, CMS management should evaluate the ongoing use of the methodology and how to integrate it with operations. The level of effort and resources necessary to complete an intense validation effort should be evaluated. In evaluating the degree to which a similar validation effort occurs each year, the State should consider the underlying purpose or need for the validation:

Potential Future Purpose/ Need of Savings Validation	Impact
Analyze/confirm benefits of projects not currently included in this validation report	Due to the constraints of resources, time, and information, a number of projects were not validated and reported in the total savings communicated in this report. Depending on management's purpose and direction related to the longer term savings validation approach, these projects may need further investigation and continued analysis.
Support billings to agencies	The validation effort should be focused on those areas/projects which will be billed. The validation methodology could be used to establish estimates prior to billings and then be periodically updated to reflect actual results. An additional element of the savings validation approach that could be incorporated to assist with billings would be to evaluate and reflect customer drivers in the validation effort to better assign savings to underlying customer agencies.
Communication of initiatives/projects	The validation effort should be directed at those initiatives or underlying projects that are intended to be communicated to the public and require a method for documenting and supporting the amounts publicized. The primary purpose of the validation effort in this circumstance would be to substantiate amounts reported to the public in a transparent, factual manner.
Manage individual project returns and gauge the incremental success of new projects and initiatives	The validation effort should be introduced into the State business case and performance management processes. As with any improvement, assumptions of future benefits are developed to ascertain the potential return from the changes. An important step in an integrated performance management process is assessing actual return achieved compared to initial estimates and evaluating lessons learned through the implementation of the improvement.

In the future, the purpose of savings validation may be a combination of the above areas of focus. The important aspect to recognize for each of the focus areas is whether incremental savings projects will be validated or if all ongoing projects will be monitored and validated. These decisions and the future direction and use of the savings validation approach needs to be balanced with the cost/benefit required to conduct the effort.

The current savings validation approach relies heavily on baselines established prior to the Efficiency Initiatives. As time passes and the State continues to transform and improve its operations, these baselines will become irrelevant. At some point in the future, the State should reexamine the savings validation methodology and evaluate how to measure success. For example, it may eventually be more meaningful for the State to measure attainment of performance goals that are based on benchmarks from high-performing organizations, rather than comparing itself to its own previous performance from a receding past. Similar to the questions posed, the State will need to examine the intention of the validation and the purpose it serves in summarizing, documenting and communicating savings.

In applying the saving validation approach, the structure and responsibilities for transitioning these tools and techniques are outlined in the following recommendations related to project management and initiative oversight.

Improved Interagency Oversight/Coordination and Project Management

Observations

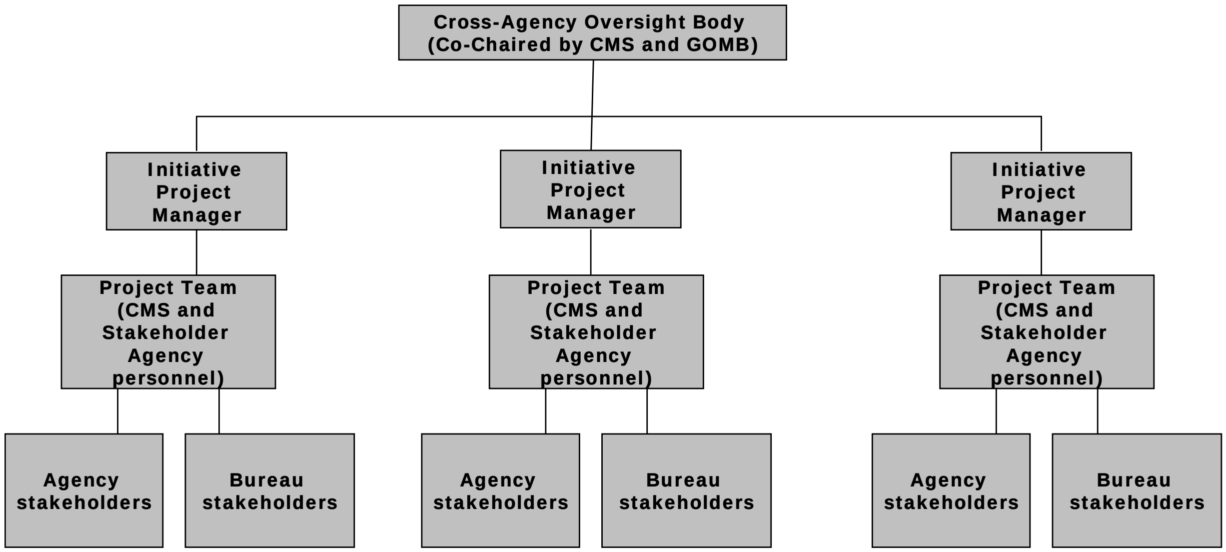
In a limited number of projects analyzed during the validation effort, the Savings Validation team observed:

- Instances where savings were not fully realized,
- Projects that were not substantiated due to lack of information or coordination within the State or with its vendors, or
- A delay in the realization of benefits occurred due to the lack of full implementation by stakeholders involved in the projects.

Many of the instances and issues were a result of the lack of coordination between agencies, stakeholders circumventing new processes established to improve enterprise oversight and spend controls, or lack of execution of project steps necessary to see the results of the project.

Recommendation

An enhanced project management and oversight structure would assist in addressing these coordination efforts. The project management structure would manage accountabilities and responsibilities for execution of the initiatives. This would require identifying and engaging appropriate stakeholder agencies and mutually implementing improvements between CMS and the respective agencies.



An oversight body with representation of stakeholder agencies/personnel may be necessary to achieve new benefits or expand the efficiency efforts to new functions. This oversight body would offer improved enterprise involvement and coordination. Key impacted agencies would be responsible for directing and participating in projects. Responsibilities of this oversight function may include:

- Change leadership within transformation effort—State-wide and cross-agency executive commitment is a requirement for success of the larger effort and the individual projects. The coordination and combined leadership would offer the visible support and direction necessary for enterprise-wide commitment.
- Monitoring and review of the project—the oversight leadership would review the status reported by initiative project managers and help evaluate next steps at the various stages of the initiative (idea development, funding, planning, and execution). The oversight leadership would also review progress and performance reported as the effort advances.

Core responsibilities of the project management function may include:

Facilitating identifying new savings plans, objectives and opportunities with bureau and agency stakeholders

Manage and collect new insights and cost cutting opportunities from bureaus and agencies impacted by the initiative area. Apply the savings validation approach to define goals and objectives (quantitative and qualitative). Advanced planning and coordination across the State is critical for adequately determining the opportunity for improvement and the steps necessary to implement the improvements.

Inventorying and assessing status of current projects and results

Based on the results of the validation, inventory those projects that either are in process, incomplete or need further guidance to realize their savings. Define specific steps and accountabilities for realizing savings and established project goals.

Progress Reporting and Issues Management

Focus on monitoring and tracking the progress of the projects through status, risk, and issues reports. Raise key risks and issues to the appropriate level in the oversight role to improve accountability.

Savings Reporting and Performance Management against Project Targets and Plans

Play a critical role in the measurement of the success of the initiatives. The key activities include:

- For new projects, assist the project teams and underlying bureau and agency stakeholders in determining how savings will be tracked by applying the savings validation approach. Also, define and document how savings will be realized.
- Leverage existing savings templates to communicate progress and success of the projects.
- Manage delivery on future benefits outlined in the savings validation effort.

These recommended structures, responsibilities and resulting improvements would require investment of time and resources and should be balanced with the benefits anticipated through the improved coordination.

Funding and Billing Methodologies

Observations

Historically, the State has relied on billings and budget reductions to fund efficiency initiative investments. This approach has served its intended purpose of quickly identifying and gathering savings along with changing spending behavior throughout the organization while emphasizing cost cutting, transparency and accountability.

The approach relied on developing estimates of savings amounts and attributing these savings to agencies. Now that the majority of the initial efficiency initiatives are implemented and only new or incremental savings will be introduced, the State has an opportunity to re-examine its longer term funding model.

Short-term Recommendation

Based on the lessons learned during FY05, the State is currently assessing it FY06 efficiency funding and billing approach. Key considerations include:

- Efficiency Initiative Revolving Fund (EIRF) solvency
- Cash flow needs within the General Revenue Fund
- Consistent communications between GOMB, CMS and the impacted agencies
- Resource constraints to bill new projects/initiatives
- Funding on-going investments necessary to implement or sustain transformational efforts
- Influence, coordination and impact of various stakeholder agencies in the billing approach and execution
- Traceability of savings realized to agencies impacted by either budgetary or billing changes

The Savings Validation team had limited involvement with these discussions, but based on these discussions we recommend that a combined CMS and GOMB team perform the following actions in the short-term to address FY06 direction:

- Review the funding analysis already performed by CMS personnel
- Schedule any anticipated transfers from the EIRF and adjust the funding analysis appropriately
- Document FY06 billings/budget adjustments, including any underlying estimates used
- Confirm these billings/budget adjustments to project teams and project managers responsible for realizing savings
- Begin the process of designing and planning longer-term funding and billing methodologies that transition the procedures and underlying methodologies into normal operations (see below discussion)

Longer-term Recommendation

Reexamine a longer-term funding and billing model that balances funding pressures with project needs and sustainability. The longer-term goal may include evaluating each separate initiative or savings area and implementing the most appropriate funding model for that area versus attempting to fit all savings projects into a single funding and billing approach. Additionally, any funding and billing model would require underlying procedures that would support budgeting, administrative and longer-term return on investment decisions.

Since immediate short-term needs and decision are necessary, we've outlined a number of funding and billing models for consideration by the State of Illinois. This list was previously researched and benchmarked as part of other state transformation initiatives and is intended to offer future options for consideration and evaluation.

Funding Options

Funding Options	
Portal Cost Recovery	Vendors develop and operate portals at no cost to the state and are reimbursed on a per transaction basis for online services provided to constituents.
Alternative Service Delivery	Vendors are not paid on a time and materials or fixed fee basis, but rather on an annual basis out of operating budgets, increased revenues or project savings. Vendors typically develop and maintain projects on behalf of the state
Vendor Savings / Revenue Share	Vendors are not paid on a time and materials or fixed fee basis but rather through savings generated or enhanced revenues
Project Fund	As projects begin to realize savings, a portion of savings are placed in a project fund designed to fund new initiatives (similar to EIRF)
Payback in the Budget Period	Funds may be appropriated provided they are offset by savings that occur within the budgeting period
Master Leases and Third Party Leases	Typically used for equipment purchases with some opportunity to include limited services and software costs, these agreements last 3 to 3.5 years with costs spread over that time frame
Agency Share Model	Impacted agencies share in the cost of the enterprise effort
Direct Appropriations	Appropriations from the legislature for projects that are on a critical path and must occur as a part of doing business

1. Portal Cost Recovery—a number of states have innovative funding models to support services delivered via their Internet portals. "Texas Online" and "Access Indiana" are two models in which the vendor developed and now operates the portal at no cost to the state. The vendor is reimbursed on a per transaction basis for online services provided to constituents. The State of California, as part of its "Rx for Change," is looking for innovative ways to fund some IT initiatives from its Internet portal to support government services by:

   a) Selling advertising and sponsorships

   b) Offering an online state store

   c) Public/private partnerships

   d) Hosting local government sites

2. Alternative Service Delivery—the Province of British Columbia (BC) leveraged an Alternative Service Delivery (ASD) model to avoid significant capital outlay for large-scale projects. In the ASD model (e.g., outsourcing, public/private partnerships, etc.) vendors are not paid up front, but rather on an annual basis out of operating budgets, increased revenues, or savings from the projects. The vendor typically implements, transitions and maintains the service provided on behalf of the state for a fixed period of

time. ASD has been used for large-scale IT projects such as data centers and has also been used for business transformation outsourcing (BTO). In the data center model, fees are typically paid out of operating budgets that are transferred to the vendor. In BC, the revenue and accounts receivable BTO efforts are funded through vendor share in the increase in revenue collected as well as a direct transfer of the responsible agency's operating budget.

3. Vendor Savings/Revenue Share—Oregon, Maryland, and Wisconsin are jurisdictions that have pursued this type of model, in which a percentage of the savings or revenue generated is paid to the vendor following realization of the savings. The key difference between this model and ASD is that the vendor does not manage and operate on behalf of the State. The vendor's involvement typically ends following implementation, and savings are calculated and shared based on the negotiated contract. This model is often found in strategic sourcing arrangements where the vendor assists in the entire process beginning with determining the areas of opportunity and culminating in signed agreements with vendors.
4. Project Fund—Virginia created a mechanism to fund large-scale IT projects through the creation of a fund that retains some of the savings realized from large IT projects. As projects are implemented and begin to realize savings, a portion of these savings go back into the general fund and a portion go into a specific fund designed to provide the financing to launch and implement additional projects.
5. Payback in the Budget Period—In this model, new appropriations are made to fund projects that are expected to break even or generate a positive return within a specified budgeting period.

   This option supports "bundling" of strategic initiatives. For example: A project expected to provide significant constituent benefits but intangible or difficult to quantify financial benefits would be bundled with a project generating quick savings (e.g., sourcing) so that the net budgeting period cost is $0 or positive.
6. Master Lease Arrangements (MLA) and Third Party Leasing (TPL)—Master contracts employed to obtain the use of equipment over a specified timeframe. This mechanism is similar to master purchase agreements in which demand is aggregated statewide to achieve better terms from vendors. This approach is appropriate for items that are likely to require high capital investment, relatively quick replacement, or ongoing service and support.
7. Agency Share Model—Where appropriate and agreed upon by the agencies, there is the opportunity for the agencies participating in a specific project to pool funds to finance a project. The funding sources and amounts contributed are determined by the participating agencies through a governance mechanism.
8. Direct Appropriations—Although not the ideal funding option given the tight budget environment, there may be select instances where an appropriation is requested to fund a specific project.

The specific funding approach pursued for each project will depend on the type of project. Also, supporting resources and infrastructure (staff, systems, and procedures) would need to be in place to fully introduce any or all of the above options.

Appendix A—Project Overviews

Fleet Management

Project Name	FY04 ($000)	FY05 ($000)	Total ($000)
Fleet Cuts	$3,446	$2,975	$6,421
Vehicle Acquisition	$5,399	$3,025	$8,424
Reduction in Personal Services	$998	$1,165	$2,163
Other Internal Savings	$84	$44	$128
Total	$9,927	$7,209	$17,136

Fleet Efficiency

Item	Description
Project Name	Fleet Cuts
Project Overview	Governor Blagojevich implemented Executive Order 2 in January 2003 calling for cuts to fleet size, reduced maintenance costs, increased accountability, and enhanced efficiencies. The Executive Order required agencies to report on their fleets individually and for CMS to prepare a summary report on the fleet as a whole with recommendations for vehicle reductions and cost cutting. As a result, CMS Vehicles proceeded to collect approximately 1600 vehicles for disposal from the State fleet of 13,635 vehicles resulting in reduced fleet size (currently 12,072), cutting fleet operating costs. Another result of the fleet cuts was increased revenues generated from the auction of the vehicles that were cut. State fleet cuts occurred pre-fleet efficiency consulting study by Maximus.
How Savings Were Achieved	The State's smaller fleet size resulted in reduced vehicle maintenance and fuel costs. A comparison of agency OAE (Operation of Automotive Equipment) lines excluding fuel indicates that a reduction in maintenance expenditures occurred in both FY04 and FY05. An analysis of annual fuel consumption indicates a reduction of 1,368,557 gallons from FY03 to FY05.
Project Start Date	January 14, 2003
Project Completion Date	July 2004

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Volume Reductions Reduction in OAE* expenditures (not including fuel)	$28,218,683	$$27,403,307	$815,377	$28,218,683	$27,634,952	$583,732	$583,732
Volume Reductions Fuel	$20,692,743	$19,165,233	$1,527,510	$25,439,819	$23,048,326	$2,391,493	$2,391,493
Total Savings Benefit			**$2,342,887**			**$2,975,225**	**$2,975,225**

* Operation of Automotive Equipment
Recurring benefits in future years are expected to be similar to those achieved in FY05 ($2,975,225).

	FY04			FY05			
Revenue Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
New Revenues Vehicle Auction Revenue	$1,102,502	$0	$1,102,502	na	na	na	na
Total Revenue Benefit			**$1,102,502**				

There is no expected future recurring benefit from Executive Order 2 vehicle disposals

Fleet Efficiency (continued)

Incremental Costs of the Savings Project

There were no incremental costs associated with this initiative.

Vendor Role

This was a CMS led and executive initiative.

Qualitative Benefits

Benefits	Outcome
Improved Service Quality	• Reconciliation of CMS and agency fleet data resulted in error correction.
Improved Technology Leverage	• In order to fully comply with Executive Order 2 and meet the goals of the CMS Fleet Efficiency Initiative, agencies and CMS had to have data to quickly evaluate fleet and prioritize vehicles necessary to agency missions. To accomplish this, Vehicles used current data supplemented by data from agency reports and surveys to develop a database of additional fleet information not previously captured including up to date mileages, categorized vehicle use justification, location and driver information.
Improved Decision Making	• Fleet analysis, which resulted in cuts, gave agencies and CMS better insights into where vehicles are justified. Reducing fleet size where vehicles were used primarily for commuting resulted in increased compliance with the goals of the Executive Order. It also allowed for the remaining fleet operating cost funds to be prioritized to mission critical vehicles. It should be noted that Division of Vehicles implemented a vehicle acquisition template to enable cost analysis of agency vehicle acquisition requests. The template compares purchase, lease, reimbursement for cost effective fleet acquisition decisions.
Improved Management of Business Process	• At the Direction of the Governor's Office, agencies and CMS collectively identified excess assets in the State fleet and eliminated them. In the process, agencies and CMS became more informed on the makeup of the fleet and costs associated with having them in order to prioritize what vehicles should be sustained.
Improved Data Quality and Accessibility	A reconciliation of CMS and agency fleet data resulted in better fleet data management and accountability. • The study also illuminated the need for one source for fleet cost data, which currently resides in multiple, redundant systems lacking necessary cost data for development of baselines and for decision-making.

Fleet Efficiency (continued)

Item	Description
Project Name	Vehicle Acquisition
Project Overview	Governor Blagojevich implemented Executive Order 2 in January, 2003 calling for cuts to fleet size and costs and enhanced efficiencies. In early 2004, as a result of the Executive Order, CMS instituted enhanced review procedures to assess new vehicle requests. CMS Vehicles developed a vehicle acquisition template used to justify obtaining vehicles by the most economical means available. In addition to comparing purchase to lease to reimbursement, CMS added used GSA vehicles as an acquisition option. As a result of these new governance and acquisition procedures, new vehicle acquisition costs have been significantly reduced: • 124 new vehicle requests were cancelled in FY03 pursuant to EO2 • State expenditures for new vehicle acquisitions have been significantly reduced in FY04 and FY05 compared to FY03
How Savings Were Achieved	Cancellation of outstanding orders, more rigorous vehicle justification procedures, and the addition of more cost effective vehicle acquisition options led to reduced expenditures for new vehicles.
Project Start Date	January 14, 2003
Project Completion Date	Ongoing

Financial Benefits

	FY03		
Savings Benefits	Baseline	Spend	Benefit
Volume Reductions* Cancellation of outstanding vehicle orders	$4,772,150	$2,656,563	$2,115,586

* Pursuant to Executive Order 2, cancellation of vehicle orders occurred in FY03.

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Volume Reductions Reduction in new vehicle acquisition expenditures	$4,772,150	$1,488,582	$3,283,567	$4,772,150	$1,746,397	$3,025,752	$3,025,752

Recurring benefits in future years are expected to be similar to those achieved in FY05 ($3,025,752).

Incremental Costs of the Savings Project

There were no incremental costs associated with this initiative.

Vendor Role

This was a CMS led and executive initiative.

Qualitative Benefits

Benefits	Outcome
Improved Service Quality	• More detailed information, better accountability and tracking, and better fleet management overall.
Improved Decision Making	• Resulted in fleet cost data collection and use justification analysis to be performed and documented prior to vehicle requests. Identified commuting miles for management decision-making.
Improved Management of Business Process	• CMS led compliance with the requirements of Executive Order 2.
Improved Data Quality and Accessibility	• Provided data on fleet to assist in determining efficiency of vehicle acquisition versus reimbursement or other modes of transportation.

Fleet Efficiency (continued)

Item	Description
Project Name	Reduction in Personal Services
Project Overview	In accordance with Executive Orders 1 and 2, Division of Vehicles has used a variety of mechanisms including hiring freezes, vacancy extensions, and layoffs to align headcount with a reduced fleet, budgeted headcount and related spending authority reductions, and increases in healthcare and other operating expenses. These actions achieved significant savings while maintaining service levels.
How Savings Were Achieved	Division of Vehicles cut headcount to reduce labor cost.
Project Start Date	November 2003
Project Completion Date	March 1, 2005

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reductions Headcount reductions	$14,016,367	$13,018,317	$998,050	$14,283,312	$13,118,432	$1,164,879	$1,164,879

Future recurring savings are expected to be similar to savings achieved in FY05 ($1,164,879).

Incremental Costs of the Savings Project

There are no incremental costs associated with this effort.

Qualitative Benefits

Benefits	Outcome
Improved Management of Business Process	• Resulted in improved cash flow for Vehicles fund (SGRF) enabling timelier vendor payment to keep fleet goods and service costs down.

Vendor Role

Vendors did not participate in this effort.

Fleet Efficiency (continued)

Item	Description
Project Name	Other Internal Savings or Refunds
Project Overview	As part of the overall efficiency initiative, DoV examined its operations to identify opportunities for cost savings. Parts inventory and software maintenance were identified as areas with potential savings.
How Savings Were Achieved	DoV and Bureau of Communications and Computer Services determined that system maintenance and support services could be provided internally using existing agency staff for FY04. A maintenance agreement with Maximus valued at $65,000 for these services was not renewed. CMS negotiated an agreement with vendor Prairie International (International Truck) to refund $19,500 to the State for obsolete parts removed from inventory in FY04 and to provide a credit for purchase of parts of $43,800 in FY05. Parts would otherwise be returned to Surplus Property for disposal with no cost recovery for the State.
Project Start Date	FY 2003
Project Completion Date	FY 2004

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Volume Reductions Maximus Contract—discontinued	$65,000	$0	$65,000	N/A	N/A	N/A	N/A

	FY04			FY05			
Revenue Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Refunds/Credits Prairie International—parts recovery	$19,482	$0	$19,482	$43,834	$0	$43,834	$43,834

Benefits recurring in future years are expected to be similar to those achieved during FY05 for the parts recovery initiative ($43,800).

Incremental Costs of the Savings Project

There were no incremental costs for this initiative.

Qualitative Benefits

There were no significant qualitative benefits from this initiative.

Vendor Role

N/A

Facilities Management, Internal Audit and Legal

Project Name	FY04 ($000)	FY05 ($000)	Total ($000)
Personnel Reduction—Hiring Freeze (Facilities Management)	$31,200	$31,741	$62,941
Personnel Reduction—Hiring Freeze (Internal Audit)	$1,506	$1,506	$3,012
Reorganization Savings (Internal Audit)	$4,870	$5,420	$10,290
Outside Counsel (Legal)	$1,539	$3,858	$5,397
Online Legal Research (Legal)	$234	$470	$704
Phase II Headcount and Dollars (Legal)	$0	$363	$363
TOTAL	$39,349	$43,358	$82,707

Facilities Management

Item	Description
Project Name	Personnel Reductions—Hiring Freeze
Project Overview	In January 2003, the Governor introduced Executive Order 2003-1 implementing a hiring freeze. Using this and other workforce management measures, CMS and agencies maintained a reduced property management workforce during FY04 and FY05.
How Savings Were Achieved	A large reduction in the statewide property management workforce was maintained throughout the FY04 and FY05 period.
Project Start Date	January, 2003
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reduction Hiring Freeze	$31,200,494	$0	$31,200,494	$31,741,101	$0	$31,741,101	$31,741,101

Future recurring savings are expected to be similar to savings achieved in FY05 ($31,741,101).

Incremental Costs of the Savings Project

There are no incremental costs associated with this initiative.

Vendor Role

Vendors did not participate in this effort.

Qualitative Benefits

Benefits	Outcome
N/A	•

 Report Date: October 2005

Internal Audit

Item	Description
Project Name	Personnel Reductions—Hiring Freeze
Project Overview	In January 2003, The Governor introduced Executive Order 2003-1 implementing a hiring freeze. Using this and other workforce management measures, CMS and agencies maintained a reduced statewide internal audit workforce during FY04 and FY05.
How Savings Were Achieved	A reduction in the statewide internal audit workforce was maintained throughout the FY04 and FY05 period.
Project Start Date	January, 2003
Project Completion Date	Ongoing
Comments/Notes	This headcount reduction occurred prior to consolidation of the internal audit function. Further reductions were achieved as part of the consolidation effort.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reduction Hiring Freeze	$5,481,791	$3,975,258	$1,506,532	$5,481,791	$3,975,258	$1,506,532	$1,506,532

Future recurring savings are expected to be similar to savings achieved in FY05 ($1,506,532).

Incremental Costs of the Savings Project

There are no incremental costs associated with this initiative.

Vendor Role

Vendors did not participate in this effort.

Qualitative Benefits

Benefits	Outcome
N/A	•

Internal Audit Consolidation

Item	Description
Project Name	Reorganization Savings
Project Overview	Positions were restructured and senior management levels consolidated reducing operating costs. Prior to consolidation most agencies had a Chief Internal Auditor; after consolidation accountability for several agencies was assigned to each of the remaining managers.
How Savings Were Achieved	• Savings were achieved through targeted position reductions in senior management positions (separate from hiring freeze reductions), and the associated personnel and operating cost reductions associated with these positions. • The consolidated organization is sharing management knowledge and gaining efficiencies through the application of consistent standards and procedures. • The first statewide risk assessment has been conducted and a statewide risk-based audit plan was created to promote effective management control, proactive risk management, governance and ongoing business process improvement. • Consolidating internal auditing functions has allowed the State to invest in new auditing techniques, aid management in identifying solutions, reduce the need for administrative support, and allow for more efficient use of specialized expertise.
Project Start Date	July 1, 2003—Executive Order 2003 – 10
Project Completion Date	October 1, 2003—Affected agencies were consolidated and functions were taken over by CMS staff

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reductions	$12,101,104	$7,231,510	$4,869,594	$12,101,104	$6,681,403	$5,419,701	$4,869,594

The recurring benefit projected into FY06 and beyond is approximately $4.7 million annually.

Qualitative Benefits

Benefits	Description	Outcome
Improved Service Quality	• Consolidated the internal auditing function from 26 designated agencies into a single statewide function covering 36 agencies. Moving to a comprehensive statewide internal audit function provides services to agencies that did not previously have an internal audit functions, and improves the efficiency and effectiveness of services statewide. • Consolidated structure provides consistent standards and procedures and enhances objectivity and independence in the internal audit function.	• Performed risk assessment at all 36 agencies, two-year audit plan and provided services to 20 agencies w/o prior internal audit coverage. • All internal audit reports and workpapers are reviewed by a Quality Assurance unit. • One Chief Internal Auditor reviews and signs all final audit reports.
Improved Technology Leverage	• Converted staff to a consistent Lotus Notes platform • Improved technology through audit management software	• All audit staff have access to one shared drive that allows efficient sharing of common information. • Audit software product TeamMate allows greater security over audits, greater flexibility in reviewing and approving audit work.
Improved Decision Making	• Identified risk based auditing as an improved approach to meet the goals for the initiative and to allocate scarce resources. • Greater span of control by key decision makers to identify risk areas and allocate resources appropriately across the State.	• Risk assessment for each of the covered agencies. • Completed the second two-year plan using the risk assessment process. • Internal audits' centralization allows for greater control by the State over its audit functions.

Internal Audit Consolidation (continued)

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
Deloitte & Touche	FY04 and FY05	Assisted in development of statewide risk assessment plan	Planning, interviewing agencies, establishing, defining and developing the risk model, recommending an internal audit plan, completing training and installing AS/2 software

Other vendors and incremental costs are outlined at the initiative level.

Anticipated Future Benefits

Benefits	Description	Outcome
Improved Service Quality	• Performance Measures are being developed • Periodic reporting to the Office of the Governor • Increase the number of audits focused on state-wide or multi agency issues	• Greater communication with agencies • More timely follow up on outstanding risk issues
Improved Technology Leverage	• TeamMate will enhance efficient scheduling of audit resources	• Improved scheduling

Legal Services Projects

Item	Description
Project Name	Outside Counsel
Project Overview	As a result of CPO Notice #33 requiring agencies to request from CMS approval to obtain outside counsel prior to entering into any such contract, CMS reviewed the requests and as appropriate either approved the request for outside counsel, referred the agency to a more cost effective provider, or denied the request.
How Savings Were Achieved	During the course of the review process, CMS at times was able to direct agencies to a less costly firm. As example, CMS had a contract with outside counsel for labor matters. An agency submitted a request for outside counsel; however, the firm the agency requested charged a higher hourly rate charge. Therefore, the recommendation was made that the requesting agency utilizes the same provider CMS had under contract.
Project Start Date	Agencies were notified of the requirements of CPO #33 November 2003
Project Completion Date	On-going via CPO #33

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Volume Reductions	$10,164,829	$8,625,818	$1,539,011	$10,164,829	$6,307,177	$3,857,652	$1,539,011

Recurring benefit beyond FY05 cannot be determined, as it is difficult to predict the legal needs of the agencies.

Qualitative Benefits

Benefits	Description	Outcome
Improved Decision Making	• Agencies come through CMS for outside counsel approval through CPO #33 requirements	• CMS may be able to direct agencies to an outside counsel offering similar service at a lower rate.
Improved Management of Business Process	• Agencies come through CMS for outside counsel approval through CPO #33 requirements	• CMS may be in a position to suggest contract consolidation in the event multiple agencies are seeking the same type of legal service at varied rates.

Anticipated Future Benefits

Benefits	Description	Outcome
	Continued quantitative and qualitative benefits as described above	

Legal Services Projects (continued)

Item	Description
Project Name	On-Line Legal Research
Project Overview	To develop a master contract for on-line legal research for those agencies under the jurisdiction of the Governor's Office.
How Savings Were Achieved	After reviewing on-line legal research services being provided to multiple agencies by multiple providers, it was determined to establish a single (master) contract for those services. By doing so the State was able to have greater negotiating power which in turn resulted in lower rate offering and unlimited usage of the service as opposed to prior contract limitations.
Project Start Date	November 1, 2003; however, all agencies were not required to utilize the master contract until January 1, 2004
Project Completion Date	Master contract runs through October 31, 2007

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions	$1,210,008	$976,101	$233,907	$1,210,008	$740,414	$469,594	$233,907

On a go-forward basis, benefits in the future are expected to be similar to FY05.

Qualitative Benefits

Benefits	Description	Outcome
Improved Service Quality	• Increased customer accessibility • Established Program Manager position to oversee and assist clients with on-line legal research • Established defined procedures to be followed by user agencies, resulted in service consistency	• Agencies who could not afford the service now have access • Allows for greater accuracy and consistency in service delivery
Improved Decision Making	• Program Manager position allows for single point of contact for the user agencies	• Offers troubleshooting assistance; eliminates duplicative efforts as well as shortening response time
Improved Management of Business Process	• Program Manager reviews single billing package for review of accuracy and approval	• Eliminates the need for multiple invoices to multiple agencies for review and approval
Improved Data Quality and Accessibility	• Improved ability to leverage common information • Improved consistency and timeliness in obtaining legal research information through greater control	

Legal Services Projects (continued)

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
Gary South	Hired as a part of the PMO process	Provided support to this initiative	Support for project deliverables related to Legal efforts.

Anticipated Future Benefits

Continued quantitative and qualitative benefits as described above

Legal Services Projects (continued)

Item	Description
Project Name	Phase II Headcount & Dollars
Project Overview	As a result of Executive Order #10, legal work pertaining to non-agency specific labor/personnel and contracts/procurement matters was consolidated into CMS.
How Savings Were Achieved	• Position descriptions of legal staff from each of the agencies included in the consolidation were reviewed. The portion of the positions involving non-agency specific work pertaining to labor/personnel and contracts/procurement was identified and transferred to CMS. With that said, the review/identification process was completed in two separate phases. During Phase I, headcount and dollars were identified from position descriptions that were provided by the agencies. During Phase I, some agencies were excluded from the consolidation. Twelve headcount were identified as a result of Phase I. Headcount and associated dollars were transferred to CMS. All transferred dollars were used from Phase I to support the legal consolidation, so no savings were realized. • During Phase II, the additional agencies and the larger agencies were re-reviewed and an additional eleven headcount was identified and transferred. The State does not anticipate filling all eleven positions from Phase II. Remaining headcount and dollars not used were considered savings.
Project Start Date	November 2003
Project Completion Date	All anticipated positions have yet to be filled. Once the desired positions have been filled, the State will consider the project complete.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reductions				$408,392	$19,968	$388,424	$0

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursements				($24,869)	$0	($24,869)	$0

On a go-forward basis, benefits in the future are expected to be similar to FY05.

Qualitative Benefits

Benefits	Description	Outcome
Improved Service Quality	Established single points of contact in functional areas	Streamlined services which enables prompt, high-quality legal services
Improved Decision Making	Improved decision making process	Use of accurate information through easy access to single point of contact
Improved Management of Business Process	Funded by transfers of Phase I, a support unit was created which will allow administrative/ secretarial support for the Deputy General Counsel positions and others	Allows the General Counsels and other staff counsel to do legal work as opposed to administrative tasks

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
Gary South	Hired as a part of the PMO process	Provided support to this initiative	Support for project deliverables related to Legal efforts.

Anticipated Future Benefits

Continued quantitative and qualitative benefits as described above

Media Services

Project Name	FY04 Benefit ($000)	FY05 Benefit ($000)	Total Benefit ($000)
Public Information Officer Consolidation	$0	$1,871	$1,871

Illinois Office of Communication & Information (Phase I—Public Information Officer Consolidation)

Item	Description
Project Name	Public Information Officer Consolidation
Project Overview	By consolidating the Public Information Officers (PIOs), a more streamlined and efficient unit would prevail yielding specialized agency media relation attention while providing the State of Illinois with cost savings associated with reduced headcount. Timeline for projects: • April 2004—Planning of PIO Consolidation began • April through June 30, 2004—IDOT cut funded positions of legacy PIOs which were not replaced • August 1, 2004—Consolidation of PIO took place
How Savings Were Achieved	Savings associated with reduced headcount and related personnel expenses (cost savings)
Project Start Date	Governor's Executive Order 2004-2 signed March 31, 2004 and effective 60 days post signature
Project Completion Date	August 1, 2004—affected agencies were consolidated and functions were taken over by CMS staff

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Reduced Baseline Appropriation (Pre-emptive headcount reduction/layoff of IDOT employees targeted for PIO consolidation)				$234,616	$0	$234,616	• No recurring benefit from FY04 to FY05. FY05 anticipated benefits listed to the left). FY06 anticipated recurring benefit will be $255,945.
Budgeted Spend Reductions				$4,211,427	$2,281,804	$1,929,623	• No recurring benefit from FY04 to FY05. FY05 anticipated benefits listed to the left. FY06 anticipated recurring benefit, given increased headcount is anticipated to yield approximately $1,130,837
Total Savings Benefits				$4,446,043	$2,281,804	$2,164,239	$1,386,782

	FY04			FY05			
Revenue Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Enhanced Reimbursement (Dollars originally identified as revenue sources that are estimated to NOT materialize)				$(293,617)	$0	$(293,617)	Unknown at this time
Total Revenue Benefits				$(293,617)	$0	$(293,617)	

Illinois Office of Communication & Information (Phase I—Public Information Officer Consolidation) (continued)

Qualitative Benefits

Benefits	Description	
Improved Service Quality	• Centralized efforts to provide information to the public • Ability to consolidate information and leverage best practices across PIOs • Ability to leverage specialist skills	• More efficient and effective communication and representation for the citizens and taxpayers of the State of Illinois • Greater accuracy and consistency in communication delivery • Higher quality and customer service through consistent standards and protocol
Improved Technology Leverage	• Use of common technology platforms wherever possible (e.g., a single calendar)	• Allows agencies to understand "real time" information regarding scheduling and availability
Improved Decision Making	• Easy access to accurate information	• Decision-making is improved because the risk of decisions being made based on inaccurate or incomplete information is reduced
Improved Management of Business Process	• Ability to manage the flow of information and respond to reporter inquiries, especially regarding cross-agency initiatives	• Consistent and accurate information given to the public regarding all agencies and initiatives

Vendor Involvement and Other Incremental Costs

No partnering costs were identified.

Anticipated Future Benefits

In the future, benefits are expected to be:
- Recurring savings noted above
- Qualitative benefits described above

IT and Telecom

Project Name	FY04 ($000)	FY05 ($000)	Total ($000)
AT&T 6-J Credits	$0	$200	$200
AT&T Contract Credits	$1,285	$0	$1,285
EIRF Billing	$32,305	$32,305	$64,610
Entrust PKI	$1,544	$1,540	$3,084
IBM Technical Services Provider Contract	$1,013	$5,093	$6,106
IT Contractor Pricing	$3,540	$5,664	$9,204
IT Contractor Reductions	$13,061	$13,217	$26,278
IT Governance	$1,626	$6,978	$8,604
IT Workforce Management	$30,791	$33,099	$63,890
SSRF Rate Reductions	$3,124	$11,796	$14,920
Telecom—AT&T OCX Pricing	$111	$1,314	$1,425
Telecom—Centrex	$553	$1,398	$1,951
Telecom—DES Move	$0	$973	$973
Long Distance Rate Reductions	$0	$5,359	$5,359
Lottery Telecom Spend Reduction	$700	$1,491	$2,191
Telecom—Sprint OCX Pricing	$257	$593	$850
Total	**$89,910**	**$121,020**	**$210,930**

IT/Telecom Rationalization Projects

Item	Description
Project Name	AT&T 6-J Credits
Project Overview	AT&T is the provider of data circuits supporting 800 (toll-free inbound) service. As part of the overall IT/Telecom Rationalization effort, it was discovered that AT&T was charging the state more than the contracted rates for this service. When CMS discovered the billing discrepancy, a settlement was negotiated with AT&T in which retroactive credits were calculated and applied to CMS bills.
How Savings Were Achieved	AT&T provided credits equivalent to the cumulative over billing.
Project Start Date	Billing investigation began in October 2004
Project Completion Date	Credits received by CMS in July/August 2004.

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	– Baseline	= Benefit	Revenue	– Baseline	= Benefit	Recurring Benefit
Refunds/Credits AT&T 6-J Credits	NA	NA	NA	$200,164	0	$200,164	0

There are no expected future recurring savings from this action.

Incremental Costs of the Savings Project

There were no incremental costs associated specifically with this savings project.

Qualitative Benefits

Not applicable.

Vendor Role

This was a BCCS led effort—no involvement by vendors.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	AT&T Contract Credits
Project Overview	As part of the IT/Telecom Rationalization effort, CMS contractor staff identified an error in AT&T Network 2000 contract billings going back to 1997. Analysis was performed to determine the amount of the over billing.
How Savings Were Achieved	A settlement was negotiated with AT&T and credits were applied to CMS bills.
Project Start Date	Error identified in early FY 2004.
Project Completion Date	Final credits were received on the January 2004 invoice.

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	– Baseline	= Benefit	Revenue	– Baseline	= Benefit	Recurring Benefit
Refunds/Credits AT&T Contract Credits	$1,284,976	0	$1,284,976	0	0	0	0

NOTE: Revenue benefit is a result of a negotiated settlement for prior period over billing.

There are no expected future recurring benefits from this action.

Incremental Costs of the Savings Project

There were no incremental costs associated specifically with this savings project.

Qualitative Benefits

Not applicable.

Vendor Role

This was a BCCS led effort—no involvement by vendors.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	EIRF Billing (FY04)
Project Overview	Agencies were billed at the beginning of FY04 in anticipation of future savings from IT consolidation activities. Agency IT appropriations were reduced the same amount for FY05. The withdrawal of this funding to agencies represents a permanent reduction in agency IT budgets, and, as such, contributed to the reduced IT spend year over year from FY03 to FY04 and continuing in FY05.
How Savings Were Achieved	Permanent reduction in agency IT funding.
Project Start Date	Legislative/Executive order authority establishing the savings payments was signed into law in June 2003.
Project Completion Date	Billings took place in August and September 2003. Appropriations were reduced by GOMB in equal amounts during the FY05 budget process.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Reduced Baseline Appropriation EIRF IT Billings/Appropriation Cuts	$32,305,017	0	$32,305,017	$32,305,017	0	$32,305,017	$32,305,017

Future Recurring Savings: Agency appropriations were permanently reduced by $32,347,055. This reduction continues to be in place.

Incremental Costs of the Savings Project

There were no incremental costs associated specifically with this savings project.

Qualitative Benefits

Benefits	Description (Examples Below)	Outcome
Improved Technology Leverage	• Easier coordination of technology initiatives and implementation of new technology • Provides mechanism to fund enterprise initiatives • Enhanced IT integration • Improved ability to manage IT as a statewide strategic tool for improved constituent service	• Funding for enterprise initiatives (EIRF), such as • Rationalization initiative • Development and implementation of project management and workflow tools • Launched the ICN consolidation • Initiated consolidation activities for: SQL Server, Websphere, CMS Tape

Vendor Role

This was a GOMB sponsored initiative. No vendor involvement.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Entrust PKI
Project Overview	Entrust is the vendor providing Public Key Infrastructure (PKI) software to the State. The PKI environment supports digital signatures (encrypted security). The encrypted certificates were purchased in large blocks in advance of their actual deployment. As part of the rationalization, the PKI contract was renegotiated to achieve better value for the State. At the time of the renegotiation, less than 50,000 certificates had been deployed while 1 million had been prepaid. Maintenance fees were payable on all certificates regardless of whether they were deployed. Additionally, software modifications were charged at $130/hour, and these services were expected to rise as the deployment increased dramatically. The negotiations resulted in deferment of future certificate purchases; maintenance payment due upon deployment (rather than purchase); maintenance costs tied to volume; and two full-time vendor personnel (FTEs) assigned to the State, at no charge, to support deployment. Quarterly training programs for state employees were also negotiated but were not included in the savings calculations.
How Savings Were Achieved	Renegotiated the existing contract to avoid maintenance payments until actual deployment and to obtain deployment support professional services at no cost.
Project Start Date	Negotiations began in 3rd quarter FY03.
Project Completion Date	Amendment #6 was signed August 2003.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions Renegotiated pricing	$1,807,067	$263,501	$1,543,566	$1,819,329	$279,249	$1,540,080	$1,540,080

The benefit in future years is expected to be similar to that achieved in FY05 ($1,540,000).

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

The renegotiated contract provided zero cost consulting support as an incentive for deployment to improve the security of the State network.

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	February to August 2003	• Analysis of the existing contract • Contract renegotiation support	• Cost benefit analyses • Renegotiation recommendation

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	IBM Technical Services Provider (TSP) Contract Savings.
Project Overview	CMS has a long-standing master hardware maintenance contract with IBM that many agencies use to purchase IT hardware maintenance services. As part of the rationalization effort, CMS renegotiated this contract using the levers of competitive threat; price benchmarking, statewide volumes and total spend with IBM to reduce the pricing on hardware maintenance services as well as technical consulting services. Agencies that previously did not use the TSP were instructed to convert their maintenance to this contract in order to guarantee the lower overall pricing.
How Savings Were Achieved	CMS negotiated reduced rates for: hardware fixed price maintenance, T&M maintenance, and hourly rates for technical consulting. This contract significantly reduced rates from the prior contract. It also simplified contract management by replacing other contracts utilized by agencies for similar services.
Project Start Date	Analysis began in September 2003.
Project Completion Date	Rate reductions were effective January 2004.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	– Spend	= Benefit	Baseline	– Spend	= Benefit	Recurring Benefit
Rate Reductions Renegotiated pricing	$1,012,824	$0	$1,012,824	$5,093,444	$0	$5,093,444	$5,093,444

Future recurring savings are expected to be similar to those achieved in FY05 ($5,093,000)

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Benefits	Description (Examples Below)
Improved Service Quality	• Enhanced overall customer focus • Greater accountability in service delivery • Shortened customer service cycle times and procurements • Ability to leverage outside resources at appropriate cost-effective skills and increase skill levels
Improved management of business process	• Single statewide contract/vendor to manage • Flexibility to adapt to changing business requirements • Optimal blend of in-sourced and outsourced processes ensuring increased process efficiency

Vendor Role

Broadly, McKinsey and BCCS worked together to:

- Analyze statewide spending patterns on IT maintenance and determine future needs;
- Develop a plan to migrate IT maintenance services to a common (established) vehicle;
- Establish additional services and service level commitments from the current maintenance vendor;
- Negotiate aggressive contract discounts;
- Migrate agencies to the renegotiated agreement.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	IT Contractor Pricing
Project Overview	The State employs significant numbers of contractors in a variety of IT areas including software development/support and hardware installation/support. In July 2003, BCCS and McKinsey gathered information from agencies and other sources to identify contractors, work performed, and hourly rates paid. An analysis of this information indicated that the State, through its buying power and because of market conditions, could likely negotiate reduced rates. With support from McKinsey, CMS engaged in negotiations with most of the firms employing contractors who worked for the State in order to lower contractor costs.
How Savings Were Achieved	The negotiations achieved significantly lower hourly rates on 282 individual contracts.
Project Start Date	Analysis of contractor costs began in July 2003.
Project Completion Date	Contract amendments were completed in November 2003.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions Renegotiated Contractor Pricing	0	$-3,539,797	$3,539,797	0	$-5,663,675	$5,663,675	$5,663,675

Future recurring benefits are expected to be similar to FY05 ($5.6 million). If contractors remain employed by the state, eventually marketplace pressures may lead to rate increases. Currently, the State plans to eliminate all non short-term IT contractors during FY06.

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Not applicable

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	July 2003 to November 2003	• Collection of state IT contractor information via agency survey • Analysis of contractor positions and rates • Contract renegotiation support	Listing of State IT Contractors and rates

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	IT Contractor Reductions
Project Overview	The State employs significant numbers of contractors in a variety of IT areas including software development and support, and hardware installation and support. At the end of FY03, a survey conducted by BCCS and McKinsey identified 526 IT contractors employed statewide. An evaluation of these positions conducted by agencies, BCCS and McKinsey determined that 94 of these contracts were non-essential and could be eliminated to generate savings.
How Savings Were Achieved	BCCS/McKinsey worked with agencies to identify current IT contractors, evaluate use of the contractors, and identify those deemed “non-essential”. Through this process, 94 contracts were determined to be non-essential. Agencies were instructed to not renew these contracts for FY04. A follow up survey conducted by McKinsey in October 2003 confirmed that 87 of the contracts had been terminated.
Project Start Date	Analysis of contractor costs began in May 2003.
Project Completion Date	Most contract cuts were made by June 30th, 2003. Some were made in September 2003.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Volume Reductions Contractor Reductions	$13,217,421	$156,902	$13,060,519	$13,217,421	$0	$13,217,421	$13,217,421

Future recurring benefits from these reductions will depend on the state’s success as it moves to eliminate most IT contractors during FY06.

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	May 2003 to October 2003	• Collection of state IT contractor information via agency survey • Evaluation of contractor positions • Follow-up survey to confirm contract terminations	• Listing of State IT Contractors • Non-essential contractor recommendations • Contract elimination confirmations

Qualitative Benefits

Not applicable

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	IT Governance
Project Overview	• To meet its mandated responsibilities under the IT consolidation statutes, CMS established a formal governance process at the end of FY04/beginning of FY05 to review agency IT requests in order to: • Assess need across agencies with the intent of establishing master contracts/combined purchasing vehicles • Establish standard platforms and architectures for the efficient delivery and maintenance of IT services • Lower overall costs of providing IT services under the Governor
How Savings Were Achieved	Through it's governance role, CMS denied/redirected agency IT projects which would otherwise have led to unnecessary increased spend, including duplication of contracts and services already in place, and pursuit of systems/platforms not in line with the strategic direction of IT for the State.
Project Start Date	4th quarter FY04.
Project Completion Date	Ongoing.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	– Spend	= Benefit	Baseline	– Spend	= Benefit	Recurring Benefit
Cost avoidance	$1,626,400	0	$1,626,400	$6,978,253	0	$6,978,253	$6,978,253

No recurring savings are expected for the specific initiatives reflected in the figures above. However, Governance procedures remain in place and will continue to control spending in future years.

Incremental Costs of the Savings Project

Accenture and BearingPoint participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Benefits	Description (Examples Below)	Outcome
Improved Technology Leverage	• Coordination of technology initiatives and implementation of new technology standards • Enhanced IT integration • Increased automation of key processes through better technology • Greater flexibility to adapt to changing technology environment	• IT Master Plan • Defined Enterprise Architecture • Statewide Architecture Review Board (ARB)
Improved management of business process	• Decreased non-compliance risk • Flexibility to adapt to changing business requirements • Greater span of control • Increased focus and control of statewide IT financial resources • Increased accessibility of automated services for citizens	• Implemented the new Governance model • Institutionalized the Enterprise Program Office (EPMO)

 Report Date: October 2005

IT/Telecom Rationalization Projects (continued)

Vendor Role

Vendor	Duration	Role	Key Deliverables
Accenture	March 2004 – June 2005	• Design and establish an effective IT governance process integrated with the shared-services model • Develop standards and participate in governance actions	• Defined the end-state vision for IT/Telecom capability • Created enterprise architecture and strategy group (EA&S Group) • Created the Architectural Review Board (ARB) • Developed and delivered the IT Master Plan • Implemented the new Governance model including charter process • Institutionalized the Enterprise Program Office (EPMO) • Participated in standards development and governance review
BearingPoint	March 2004 – June 2005	• Develop standards and participate in governance actions	• Participated in standards development and governance review

Additional vendor involvement is outlined at the initiative level.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	IT Workforce Management
Project Overview	• Beginning in FY03, the State has implemented a number of actions to reorganize and streamline the IT workforce: • Significant numbers of IT employees left state service through ERI and attrition. • In January of 2003, hiring limitations were implemented to maintain reduced headcount levels. • Beginning in Spring 2003 and continuing through present, BCCS, with the assistance of Accenture and EKI, undertook major workforce analysis and reorganization efforts in order to maintain and improve statewide IT services. This included development and implementation of a shared service IT delivery model.
How Savings Were Achieved	Through careful management of resources, state agencies reduced IT employee spending from prior levels by managing operations with reduced headcount.
Project Start Date	Significant workforce reductions began with ERI retirements in August 2002
Project Completion Date	Continuing

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Budgeted Spend Reductions Headcount Management—SSRF*	NA	NA	NA	NA	NA	NA	NA
Budgeted Spend Reductions Headcount Management—CRF	$8,519,426	$7,217,684	$1,301,742	$8,662,639	$8,088,065	$574,574	$574,574
Budgeted Spend Reductions Headcount Management—Other IT	$29,488,998	$0	$29,488,998	$32,524,661	0	$32,524,661	$32,524,661
Total Savings Benefits			$30,790,740			$33,099,235	$33,099,235

*Savings stemming from management of SSRF headcount occurred but are not presented here. SSRF labor savings contributed to SSRF rate reductions and for that reason are not included above. Please refer to SSRF savings form.

Future recurring benefits will depend on the continuing management of state government IT staffing levels and continuing successful deployment of the shared service model. If current employment levels are maintained, future recurring benefits are likely to be similar to FY05.

Incremental Costs of the Savings Project

Accenture and EKI participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

IT/Telecom Rationalization Projects (continued)

Qualitative Benefits

The reduction in statewide IT workforce while maintaining and enhancing service deliveries was sustained through the rationalization effort, including the development of a true shared services IT organization. In addition to the reduced staffing costs this effort supported, there are significant lasting indirect qualitative benefits of workforce and service-delivery redesign, including:

<table>
<tr><th>Benefits</th><th>Description</th><th>Outcome</th></tr>
<tr><td>Improved Service Quality</td><td>• Increased customer accessibility and responsiveness
• Enhanced overall customer focus (internal and external customers)
• Greater accuracy and consistency in service delivery
• Reduced/eliminated errors
• Shortened customer service cycle times
• A defined set of policies and procedures followed by agencies, resulting in service consistency and better quality
• Ability to leverage specialist skills and increase skill levels, resulting in better quality and customer service</td><td rowspan="3">• Designed and implemented the shared IT services organizational model
• Created IT Competency model for the shared IT services organization
• Established Agency Relationship Management capability
• Established Enterprise Project Management Office</td></tr>
<tr><td>Improved Decision Making</td><td>• Improved decision making through easy access to accurate information
• Increased value through segregating non-core processes and shifting focus in agencies to core, more value-added activities, such as agency program efforts</td></tr>
<tr><td>Improved management of business process</td><td>• Flexibility to adapt to changing business requirements
• Efficient integration of divisions or departments that shift from one agency to another
• Optimal blend of in-sourced and outsourced processes ensuring increased process efficiency</td></tr>
</table>

Vendor Role

Headcount management was executed by state agencies. GOMB exercised controls over authorized headcount and hiring approvals, and agencies reorganized business practices to be able to manage with significantly reduced numbers. Accenture and EKI made significant contributions to the design and implementation of the new shared services IT delivery model:

Vendor	Duration	Role	Key Deliverables
Accenture	March 2004 – June 2005	• Analysis of the existing organization • Design of new shared services organization (IT)	• Improved job description management process between BCCS and Bureau of Personnel • Implemented standardized Change Control process • Consolidated IT infrastructure , personnel and assets for eleven key agencies • Conducted orientations sessions for the transition of IT infrastructure personnel into BCCS • Defined the target technical environment and transition plans • Created enterprise architecture and strategy group (EA&S Group) • Developed Contractor Rationalization process • Developed and delivered the IT Master Plan • Established baselines for IT operational improvements and SLA management • Developed project management toolkit to improve IT project management effectiveness • Developed Competency Map and training recommendations for BCCS IT personnel

Vendor	Duration	Role	Key Deliverables
EKI	March 2004 – June 2005	• Analysis of the existing organization • Design of new shared services organization (Telecom)	• Improved job description management process between BCCS and Bureau of Personnel • Implemented standardized Change Control process • Implemented Customer Service Center • Conducted orientations sessions for the transition of Telecom infrastructure personnel into BCCS • Defined the target technical environment and transition plans • Developed Contractor Rationalization process • Developed and delivered the Telecommunications Master Plan • Developed the strategy and implementation plan for the integration of the ICN organization into CMS-BCCS (Project Nemo) • Created the Communications Management Center (CMC) and Communications Solutions Center (CSC) • Established baselines for telecom operational improvements • Developed new CSC processes and workflows • Created the telecommunications organization to support BCCS operations • Developed and delivered the Telecommunications Master Plan • Developed Competency Map and training recommendations for BCCS telecom personnel

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	SSRF Rate Reductions
Project Overview	BCCS annually performs a comprehensive evaluation of costs and utilization of services provided through the Statistical Services Revolving Fund. Cost reductions realized from prior periods and projected into the current period are used as the basis for establishing rates for services. Rate adjustments are implemented as a means to pass on cost reductions and efficiencies to state agency customers.
How Savings Were Achieved	Reduction in FY04 rates (retroactive to July 2003) charged to agencies for SSRF services Reduction in FY05 rates (retroactive to July 2004) charged to agencies for SSRF services.
Project Start Date	Cost reduction efforts are ongoing. The rate analyses for the above reductions began in August 2003 and September 2004 respectively.
Project Completion Date	Rate analyses were completed in October 2003 and January 2004 respectively.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions SSRF Rate Reductions	$80,208,775	$77,084,495	$3,124,280	$88,839,901	$77,044,041	$11,795,860	$0

The recurring benefit expected in future years depends on levels of utilization and changes in cost. Rates will be readjusted early in FY06.

Incremental Costs of the Savings Project

Accenture and BearingPoint participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

This section is not applicable.

Vendor Role

- These rates incorporate many CMS contract and operational efficiencies stemming from both BCCS and vendor initiatives. Examples include managing service delivery with a reduced workforce, reduced software and hardware contract costs, realigned operations and prioritization of initiatives.
- Accenture and Bearing Point were instrumental in reducing contract costs, reorganizing workforce and workflows, and developing consolidation plans which allowed for efficient management of current resources and reduced need for discretionary spending.

 Report Date: October 2005

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Telecom—AT&T OCX Pricing
Project Overview	AT&T is one of the master contract vendors providing data circuits to CMS for the state telecommunications backbone data network. Through the rationalization analysis, it was determined that the State, based on it's buying power and market conditions, could likely achieve improved contract pricing for the largest high-speed pipes (OC3, OC12).
How Savings Were Achieved	CMS renegotiated lower OCX pricing in the AT&T contract.
Project Start Date	Negotiations took place during FY04 and FY 05.
Project Completion Date	Amendment 1 was signed 2/04 with rates effective 5/04; Amendment 2 was signed 11/04 with rates effective 1/05.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions (Amendment 1)	$3,744,612	$3,633,622	$110,990	$3,744,612	$3,078,672	$665,940	$665,940
Rate Reductions (Amendment 2)				$1,758,000	$1,360,314	$397,686	0
Refunds/Credits (Amendment 2)				0	-$250,000	$250,000	0
Total Benefit			**$110,990**			**$1,313,626**	**$665,940**

Future recurring benefits are expected to be approximately $1,460,000.

Incremental Costs of the Savings Project

McKinsey and EKI participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Not Applicable

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	August 2003 to February 2004	Analysis of the existing contract, rates, and market conditions Contract renegotiation support	Cost benefit analyses Renegotiation recommendation
EKI	March 2004 to November 2004.	Analysis of the existing contract, rates, and market conditions Contract renegotiation support	Cost benefit analyses Renegotiation recommendation

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Telecom—Centrex
Project Overview	CMS has a master contract with SBC for Centrex service covering Springfield, Chicago, and other SBC territory sites throughout the state. Through the rationalization effort, it was determined that the State could likely obtain more favorable pricing based on current market conditions and the volume of state business with SBC. CMS undertook negotiations to lower the statewide cost and restructure the contract using the threat of re bidding.
How Savings Were Achieved	The original contract contained large bucketed charges for common equipment, rather than a per line charge. Analyses were performed to determine the true per-line cost to the state. Once a per-line cost was established, negotiations ensued to lower this per-line cost based on minimum volume commitments. A contract amendment formalized the new rate and charging mechanism.
Project Start Date	Analysis began in July 2003. Negotiations with SBC were ongoing throughout the project.
Project Completion Date	The completed contract amendment was signed June 2004.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	– Spend	= Benefit	Baseline	– Spend	= Benefit	Recurring Benefit
Rate Reductions: Renegotiated pricing	$8,211,237	$7,657,945	$553,293	$7,847,334	$6,449,058	$1,398,276	$1,398,276

Future recurring benefits are expected to be similar to FY05 ($1,398,000).

Incremental Costs of the Savings Project

McKinsey and EKI participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Benefits	Description	Outcome
Improved Decision Making	The State gained a mechanism to gauge at any point in time the true cost- per-line of Centrex service, enabling better cost/benefit analysis regarding decisions to convert Centrex lines to other services.	Improved management decision making regarding capacity and service provision

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	July 2003 through May 2004	• Analysis of the existing contract, billings, line estimates, and market conditions • Contract renegotiation support	• Cost benefit analyses • Renegotiation recommendation
EKI	March 2004 through May 2004	• Analysis of the existing contract, billings, line estimates, and market conditions • Contract renegotiation support	• Cost benefit analyses • Renegotiation recommendation

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Telecom DES Move
Project Overview	The Department of Employment Security facilities relocation in Chicago involved the relocation and purchase of telecom systems equipment under an existing master contract with SBC. Using competitive alternatives, a lower price was negotiated for the move. The result was $972,893 in savings over existing contract pricing.
How Savings Were Achieved	Negotiated credits on the Basic Ordering Agreement (BOA) for purchase and installation of telephone system hardware.
Project Start Date	Reductions were negotiated in September 2003.
Project Completion Date	Discount was applied to actual billings in FY05.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions Renegotiated pricing	0	0	0	$2,554,813	$1,581,920	$972,893	$0

There are no expected future recurring benefits from this effort.

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

This section is not applicable.

Vendor Role

McKinsey performed an overall review and analysis of the Telecom program and suggested areas for savings.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Long Distance Rate Reductions
Project Overview	CMS, through a master contract with AT&T, provides long distance (outbound) and toll free (inbound) calling services to state agencies. Through the rationalization effort, CMS was able to negotiate lower statewide rates for these services as well as create other operational efficiencies, allowing CMS to lower its charges to state agencies.
How Savings Were Achieved	Per minute (and, where applicable, per call) charges were negotiated down to lower rates. In addition, automation of the invoice review process and other internal operational efficiencies lowered overhead costs of providing these services.
Project Start Date	Rate analysis began in June 2004.
Project Completion Date	Rates were reduced effective with September 2004 calls.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions Long Distance Rate Reductions	NA	NA	NA	$13,133,221	$7,774,474	$5,358,747	0

Recurring benefits in future years are expected to be approximately $7,145,000.

Incremental Costs of the Savings Project

McKinsey and EKI participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

This section is not applicable.

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	June 2004 to September 2004	• Analysis of the existing contract, rates, call volumes, and market conditions • Contract renegotiation support	• Cost benefits analyses • Renegotiation recommendation
EKI	June 2004 to September 2004	• Analysis of the existing contract, rates, call volumes, and market conditions • Contract renegotiation support	• Cost benefits analyses • Renegotiation recommendation

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Lottery Telecom Spend Reduction
Project Overview	CMS provides the data network running the Lottery terminal system including local drops and connections to the network backbone. Over time the cost of providing this network was reduced through both operational and contract efficiencies.
How Savings Were Achieved	Rates that CMS charged the Lottery for the network were reduced in 2 phases in the beginning of FY04 and again in FY05. The total reduction represented cost reductions and efficiencies that had occurred since FY03. The primary savings was the elimination of the Timeplex equipment network, which was not completed until FY05.
Project Start Date	Fourth quarter FY03
Project Completion Date	First quarter FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions Lottery Telecom Rate Reductions	$8,116,561	$7,416,900	$699,661	$8,397,848	$6,906,645	$1,491,302	$723,908

Recurring benefit in future years is expected to be approximately $1,491,000.

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Not applicable.

Vendor Role

McKinsey assisted in validating the rate reductions previously planned by the State.

IT/Telecom Rationalization Projects (continued)

Item	Description
Project Name	Telecom—Sprint OCX Pricing
Project Overview	Sprint is one of the master contract vendors providing data circuits to CMS for the telecommunications backbone data network. Through the rationalization analysis, it was determined that the State could likely achieve reduced OC12 pricing by renegotiating it's contract with Sprint.
How Savings Were Achieved	CMS renegotiated lower OC12 pricing in the Sprint contract.
Project Start Date	Negotiations took place in the fall of 2003 and again in the fall of 2004.
Project Completion Date	Amendment 1 was signed February 2004. Rates were effective January 2004. Amendment 4 was signed March 2005. Rates were effective January 2005.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline – Spend = Benefit			Baseline – Spend = Benefit			Recurring Benefit
Rate Reductions Renegotiated pricing (Amendment 1)	$1,224,000	$966,540	$257,460	$1,224,000	$709,080	$514,920	$514,920
Rate Reductions Renegotiated pricing (Amendment 4)				$709,080	$631,585	$77,495	$0
Totals			$257,460			$592,415	$514,920

Future recurring benefits are expected to be similar to FY05 ($684,000).

Incremental Costs of the Savings Project

McKinsey participated in this effort, but incremental vendor costs were not billed or allocated to specific IT Savings Projects. Vendor costs have been accounted for at the initiative level (i.e., at the level of the overall IT/Telecom Rationalization effort).

Qualitative Benefits

Not Applicable.

Vendor Role

Vendor Name	Duration	Role	Key Deliverables
McKinsey	February 2004 to November 2004	• Analysis of the existing contract, rates, and market conditions • Contract renegotiation support	• Cost benefit analyses • Renegotiation recommendation

Procurement, Healthcare, and Employee Benefits

Project Name	FY04 ($000)	FY05 ($000)	Total ($000)
Food Cost	N/A	$6,345	$6,345
Cleaning Supplies – Garbage Can Liners	$347	$390	$737
Cleaning Supplies – Janitorial Supplies	$10	$18	$28
Cleaning Supplies – Paper/Foam & Toilet Tissue	$40	$114	$154
Demand Management – Denied IT equipment procurements	$1,212	$621	$1,833
Envirotest	$7,204	$3,021	$10,225
Lottery Instant Ticket Dispensing Machines (ITDMs)	$29	$1,432	$1,461
Paper – Envelopes	$37	$29	$66
Paper – Copy Paper	$501	$148	$649
PCs and Laptops	$152	$0	$152
Utilities – Electricity Purchase	$1,325	$1,677	$3,002
Utilities – Gas Purchase	$75	$72	$147
Aging Error Claim	$62	$1,055	$1,117
DD Back Claims	$0	$25,266	$25,266
DPA Subrogation	$54	$20,988	$21,042
DRS Home Services Program	$36,438	$25,408	$61,846
Early Intervention Admin Costs	$0	$5,302	$5,302
GID – Stepchildren Eligibility	$532	$964	$1,496
Group Insurance Investment Management	$52	$96	$148
Healthcare Svc – Family Case Mgmt	$17,294	$6,858	$24,152
Healthcare Svc – MH Back Claim – Error Correction	$5,586	$0	$5,586
HMO Premium Negotiation (2)	$1,749	$0	$1,749
Hospital Rate Negotiation	$336	$130	$466
IPHCA Negotiation	$382	$910	$1,292
Medicare Migration – Over 65 – Disability	$743	$6,384	$7,127
OAP Expansion	$0	$1,144	$1,144
Plan Redesign	$0	$34,373	$34,373
TOTAL	$74,160	$142,745	$216,905

Procurement, Healthcare, and Employee Benefits

Item	Description
Project Name	Food Cost
Project Overview	Beginning in late FY04, as a cost efficiency measure, Department of Corrections and CMS began a program to reduce the per meal cost of meals served to prison inmates and staff.
How Savings Were Achieved	A program of menu standardization and product/ingredient optimization were put in place to improve volume purchasing and to deliver nutritional value more cost effectively. The following are examples of the techniques employed: • Product substitution (replace 2% milk with skim) • Purchasing bulk products (e.g., cereal, coffee, beans) • Introduction of extender ingredients (e.g., soy) • Elimination of costly and unnecessary items (e.g., tuna, margarine packets)
Project Start Date	Analysis began in FY04. Savings ideas were implemented late in FY04.
Project Completion Date	Continuing

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reduction Reduced spent per meal	N/A	N/A	N/A	$49,895,581	$43,550,385	$6,345,196	$0

Future recurring benefits are expected to $0.

Qualitative Benefits

Benefits	Description
Improved Service Quality	• Standardization of service levels and practices across facilities
Improved Decision Making	• Increased focus and attention on nutrition program performance and cost effectiveness

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey	September 2003 to February 2004	• Analysis of food expenditures, procurement practices, vendor market • Cost savings estimates • Project management	• Assessment of current practices and opportunities • Compilation of Food Savings ideas • Project Status Reports

Anticipated Future Benefits

N/A

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Cleaning Supplies – Garbage Can Liners
Project Overview	Renegotiated garbage can liners contract for State use
How Savings Were Achieved	Renegotiated garbage can liner contract to reduce price and change product specifications. Former vendor was Shelby County Community Service and was viewed to be roughly 1.5 – 3 times then market price. Interview with plastic liner experts indicated that a higher quality bag could be specified from a lower cost mixture of linear and low-density resin versus the pure linear low the State had been using. Shelby County representatives were brought in for several rounds of negotiations resulting in a reduction in pricing for higher quality bags.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$1,620,118	$1,273,024	$347,094	$905,852	$515,325	$390,527	**

** Recurring benefit is the portion of the FY05 benefit that is recurring from FY04. Cannot determine recurring benefit. Contract includes economic adjustment clause, thus allowing for prices to fluctuate in line with industry trends.

Qualitative Benefits

CMS was able to negotiate for a higher quality bag at a reduced rate. The higher quality bag could be specified from a lower cost mixture of linear and low-density resin versus the pure linear low the State had been using. Additionally, by adopting a center-led approach to procurement and standardizing the purchase of this commodity, CMS decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	Assist with analysis of contract and rate renegotiation	Renegotiate for lower rate

Anticipated Future Benefits

Benefits	Description	Outcome
Improved Cost Effectiveness	CMS was able to negotiate for a higher quality bag at a reduced rate. In addition, by standardizing the contract, total cost of ownership and agencies' procurement-related costs were reduced.	Improved focus on agencies' core services. Recap additional savings in future years.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Cleaning Supplies – Janitorial Supplies
Project Overview	Rebid janitorial and cleaning supply contracts, consolidating multiple contracts, extending contract length and requesting additional contract incentives.
How Savings Were Achieved	Consolidated several janitorial and cleaning supply contracts into one larger bid which made the contract award based on all contract items to one vendor – not line-by-line.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$1,181,151	$1,171,157	$9,994	$1,156,896	$1,138,516	$18,379	**

** Recurring benefit is the portion of the FY05 benefit that is recurring from FY04. Cannot determine recurring benefit. Contract includes economic adjustment clause, thus allowing for prices to fluctuate in line with industry trends.

Qualitative Benefits

This initiative was mainly a cost savings effort to reduce rates. However, by adopting a center-led approach to procurement and standardizing the purchase of this commodity, CMS also decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey &Co.	08/2003 through 08/2004	Reviewed then current contract and conducted savings analysis	Prepared janitorial savings diagnostic, identify savings levers and assist with rate renegotiation.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	**Cleaning Supplies – Paper/Foam & Toilet Tissue**
Project Overview	Renegotiated recycled toilet tissue contract with State Use vendor. Also rebid paper and foam cleaning supplies contracts, consolidating multiple contracts, extending contract length and requesting additional contract incentives.
How Savings Were Achieved	Renegotiated recycled toilet tissue contract to reduce price and change current specifications from 4.5” roll width to 3.75” roll width. In addition, benchmarking conducted by McKinsey determined FY03 Vendor was 5% above market price. Also consolidated several paper, foam, plastic bids into one larger bid which made the contract award based on all contract items to one vendor – not line-by-line.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$2,393,465	$2,353,950	$39,875	$2,028,208	$1,914,328	$113,880	**

** Recurring benefit is the portion of the FY05 benefit that is recurring from FY04. Cannot determine recurring benefit. Contract includes economic adjustment clause, thus allowing for prices to fluctuate in line with industry trends.

Qualitative Benefits

This initiative was mainly a cost savings effort to reduce rates. However, by adopting a center-led approach to procurement and standardizing the purchase of this commodity, CMS also decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey &Co.	08/2003 through 08/2004	Reviewed then current contract and conducted savings analysis	Prepared paper savings diagnostic, identified savings levers and assisted with rate renegotiation.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Demand Management – Denied IT equipment procurements (PCs, laptops, monitors and peripherals)
Project Overview	Agencies were required to justify all IT purchases. McKinsey and CMS reviewed all justifications. Those which did not demonstrate a genuine need were denied.
How Savings Were Achieved	Empirical evidence suggested that agencies had a propensity to spend a significant portion of excess funding from their budget on IT equipment at the end of the fiscal year. To combat this, a CMS/McKinsey implemented a demand management initiative requiring agencies demonstrate the cost-benefit of their IT procurement requests. Denials were made very near to the end of the fiscal year, making it nearly impossible to prevent the lapse of funds.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
"Other" Savings Categories	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Cost Avoidance	$4,510,440	$3,298,949*	$1,211,491	$6,751,054	$6,129,967*	$621,087	**

* Includes actual spend, deferred spend, and spend to be reviewed.
** There are no recurring benefits.

Qualitative Benefits

Employing a center-led approach to IT procurements helped to eliminate excessive purchases and reduce cost. Additionally, it decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	Develop diagnostic and recommend demand management	Employed demand management tactics which required agencies to justify their purchases

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Envirotest
Project Overview	EPA, CMS and McKinsey analyzed and re-negotiated the existing Envirotest contract for the vehicle emissions testing program
How Savings Were Achieved	• Prior to the re-negotiation, EPA, CMS and McKinsey analyzed the existing contract and evaluated the options for the State including continuing the existing contract, re-negotiating the contract or canceling the existing contract in support of the emissions testing program. • It was determined that the State could re-negotiate the contract with a 1 yr extension based on the following factors: 1) volumes were lower than those initially contracted, 2) new testing procedures reduced testing time and related costs 3) station closures were anticipated to lower costs and 3) margins attained by the vendor in IL appeared higher than benchmark states. • In addition to the anticipated savings, the re-negotiation offered benefits of allowing EPA increased flexibility to evaluate their longer term program needs by avoiding vendor and program delivery disruptions. • As a result of the negotiations, the contract was extended 1 yr and introduced a new payment model that allowed for constant monthly payments (adjusted for CPI each February). • Over the term of this re-negotiated period, the State is anticipated to save >$30 million compared to what would have been charged based on anticipated costs over the same period.
Project Start Date	FY03
Project Completion Date	Contract end date is January 2007

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (Renegotiated pricing)	$51,167,495	$43,963,215	$7,204,280	$53,319,386	$50,298,551	$3,020,835	**

** FY05 recurring from FY04: $3.0 million. Go forward recurring benefit: $11.1 million in FY06 and $9.6 million in FY07.

Qualitative Benefits

Benefits	Description
Improved Service Quality	Improved air quality resulting from the reduction in pollutants from motor vehicles
Improved Technology Leverage	Contract includes use of computer-based on-board diagnostic testing, which will allow some existing testing stations to be closed without impacting service to vehicle owners.
Improved Decision Making	New agreement allows for increased flexibility and time to consider ongoing emissions control strategies and ways to reduce air pollution in the future.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	• Analysis of the existing contract, • Analysis of the options based on emission testing requirements, • Facilitation of the decision of which option to take (continue with contract, cancel contract, renegotiate contract) • Assisted with the negotiation preparations	• Vehicle Emissions Testing Program – Current Status and Next Steps • Vehicle Emissions Testing Program – Key Decisions and Considerations • Preparation for the Envirotest Contract Renegotiation • Options for Envirotest Contract

Anticipated Future Benefits

Future qualitative benefits will be similar to those noted above. Additionally, quantitative benefits are anticipated in FY06 ($11.1 million) and FY07 ($9.6 million).

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Lottery Instant Ticket Dispensing Machines (ITDMs)
Project Overview	Assisted the Illinois State Lottery in procuring 2000 24-bin ITDMs. This procurement was for the newest generation of ITDMS which are designed to increase instant ticket sales for the lottery. The relationship is structured as a percent of sales arrangement whereby the vendor shares the benefits from increased sales levels.
How Savings Were Achieved	An RFP for 2000 ITDMs was issued in November 2003. Prior to McKinsey & CMS team's involvement, the Lottery's intent was to award to contract to the winning bidder without pursuing a best and final offer (BAFO) or entering into negotiations with the vendor. The original price quoted was 2.8% of sales, well above the other bidders. The team helped Lottery obtain BAFOs from each of the three respondents and brought in all three vendors for negotiations. As a result of information that came out of the negotiations, a new RFP was created in order to foster a stronger partnership with vendors and reduce vendor risk in exchange for reduced rates. Finally, multiple pricing scenarios were drafted, including a descending scale that saves the State money by reducing the rate charged by the vendor as sales levels increase.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$65,852	$36,545	$29,307	$6,237,358	$4,805,636	$1,431,722	$29,307*

* Recurring benefit assumes ITDMS Sales remain constant each year. Difficult to predict sales since enhanced marketing strategies significantly contributed to a significant sales growth in FY05. The contract ends on 9/30/2010. Recurring benefit beyond FY05 is expected to be similar to FY05 benefit ($1,431,722).

Qualitative Benefits

This initiative was mainly a cost savings effort to reduce rates. However, by obtaining best and final offers from other vendors and issuing a new RFP, Lottery was able to apply pressure to the current vendor to obtain a better rate while maintaining continuity in service. In addition, the vendor did provide some assistance with marketing and machine distribution.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	• Assist with analysis of contract renegotiation	• Renegotiate rate for new ITDMs to achieve savings

Anticipated Future Benefits

Future qualitative benefits will be similar to those noted above.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Paper – Envelopes
Project Overview	Rebid paper contract consolidating multiple contracts.
How Savings Were Achieved	Rebid paper bid through RFP to consolidate spend into larger single bid which consolidated virgin and recycled contracts; extended contract length; and requested incentives for contract renewal and exceeding contract terms.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$1,435,065	$1,397,932	$37,132	$1,871,007	$1,841,799	$29,209	**

** Cannot determine recurring benefit. Contract includes economic adjustment clause, thus allowing for prices to fluctuate in line with industry trends.

Qualitative Benefits

This initiative was mainly a cost savings effort to reduce rates. However, by adopting a center-led approach to procurement and standardizing the purchase of this commodity, CMS also decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	• Reviewed then current contract and conducted savings analysis	• Prepared paper savings diagnostic, identified savings levers and assisted with rate renegotiation

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Paper – Copy Paper
Project Overview	Rebid paper contract consolidating multiple contracts, extending contract length and requesting additional contract incentives.
How Savings Were Achieved	Rebid paper bid through RFP to consolidate spend into larger single bid which consolidated virgin and recycled contracts; included rolled paper with copy paper; extended contract length; and requested incentives for contract renewal and exceeding contract terms.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$2,461,215	$1,960,323	$500,892	$4,003,292	$3,855,150	$148,142	**

** Cannot determine recurring benefit. Contract includes economic adjustment clause, thus allowing for prices to fluctuate in line with industry trends.

Qualitative Benefits

This initiative was mainly a cost savings effort to reduce rates. However, by adopting a center-led approach to procurement and standardizing the purchase of this commodity, CMS also decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	• Reviewed then current contract and conducted savings analysis	• Prepared paper savings diagnostic, identified savings levers and assisted with rate renegotiation

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	PCs and Laptops
Project Overview	Renegotiated IT prices on new master contract.
How Savings Were Achieved	After examining CMS IT spend, McKinsey determined that the cost of PCs was above best-in-class pricing. Prices were both fixed and close to that paid by retail consumers. By renegotiating the IT equipment master contract to have "web-minus" pricing, the prices on items with equivalent specs (or better) were lower than they were against then existing contracts. Aggregate savings includes PCs, laptops, monitors and peripherals purchased after the new master contract was in effect (May – June 2004).
Project Start Date	FY03
Project Completion Date	FY04

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$4,533,227	$4,381,047	$152,180	$-0-	$-0-	$-0-	N/A

Qualitative Benefits

This initiative was mainly a cost savings effort to reduce rates. However, by adopting a center-led approach to procurement and standardizing the purchase of this commodity, CMS also decreased other agencies procurement-related costs, thus freeing up resources to be redirected to their core services.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	08/2003 through 08/2004	Reviewed then current contract and best-in-class terms and conditions	Developed IT procurement diagnostic and assisted with rate renegotiation

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Utilities/Electricity Purchase
Project Overview	Compared electricity rate plans with other rate plans provided by the existing utility provider.
How Savings Were Achieved	To enable state facilities to select the optimal rate plan that suits their consumption pattern. Power Purchase Option (PPO) rate plan, which charges the generation cost at market price instead of a calculated cost like old bundled rate plans, provided maximum savings for state facilities.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$11,731,355	$10,406,433	$1,324,922	$15,719,459	$14,041,871	$1,677,588	*

* Electricity is an unpredictable commodity, which makes it difficult to project recurring benefit since PPO is based on market price.

Qualitative Benefits

In addition to cost savings over Standard Tariff rates, the State Electricity program is an essential tool for positioning the State in a fully deregulated electricity market after January 1, 2007. Starting in 2007, the commodity cost of electricity for consumers supplied electricity through their local electric utility will become market-based. As seen with other deregulated markets (i.e., natural gas, airline fares, long-distance telecommunications, etc.) costs for commodities tend to become unstable and tend to rise for those seeking the commodity during peak demand periods. Absent this program, the State would not have a mechanism in place to hedge against market price fluctuations or higher prices. Ultimately, the majority of large State accounts will need to be on electricity supply contracts, and those contracts will need to be administered as a matter of the normal course of business in the deregulated marketplace.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
Brubaker and Associates	FY2004 and FY2005	Managed State's Electricity Program	Assisted the State in moving State electricity accounts from regulated tariffs to third party supply contracts
University of Illinois at Chicago—ERC	May 2005–present	Manages State's Electricity Program	Provides consulting services, prepares all natural gas related procurement documents, serves as the State's agent in negotiations, interacts with vendors and covers late payments past 60 days

Note: McKinsey worked with CMS in the area of utility savings. Their primary focus was evaluating opportunities for recapturing revenue in the area of bill audits. It was determined the opportunity size wasn't significant.

Anticipated Future Benefits

Future benefits cannot be determined at this time. PPO accounts will be reevaluated in Spring 2006 to determine if contract should go out to bid in FY2007.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Utilities – Gas Purchase
Project Overview	Renegotiated contract with gas providers in FY04 for the transaction fee required to purchase gas.
How Savings Were Achieved	Gas savings were generated when the University of Illinois Energy Resources Center, which manages the State of Illinois Bulk Natural Gas Program on behalf of CMS through an interagency agreement, increased interest among natural gas suppliers to service the State of Illinois. By increasing competition, the state was able to negotiate for a lower transaction fee for purchasing gas. The fee was reduced from $.011 per therm to $.007 per therm in FY2004 and FY2005.
Project Start Date	FY03
Project Completion Date	FY05

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$206,642	$131,500	$75,142	$197,960	$125,975	$71,985	$84,000(FY06)

* ERC is projecting approximately 21 million therms of natural gas to be delivered to State facilities in FY06. The higher projection is due to the addition of some State facilities to the program, notably the James R. Thompson Center with a projected volume of 890,000 therms of its own. The program is going to be re-bid in the spring for a new contract which will start in FY07.

Qualitative Benefits

No change in service or technology – rather this initiative was purely a cost savings effort to reduce rates with unchanged service from the vendor.

Vendor Involvement and Other Incremental Costs

Vendor Name	Duration	Role	Key Deliverables
University of Illinois at Chicago—ERC	Interagency agreement with CMS since 1999.	Manages State's Bulk Natural Gas Program.	Provides consulting services, prepares all natural gas related procurement documents, serves as the State's agent in negotiations, interacts with vendors and covers late payments past 60 days

Note: McKinsey worked with CMS in the area of utility savings. Their primary focus was evaluating opportunities for recapturing revenue in the area of bill audits. It was determined the opportunity size wasn't significant.

Anticipated Future Benefits

Future benefits cannot be determined at this time. Contract will be re-bid in Spring 2006.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Aging Error Claim
Project Overview	Community provider claims were being rejected due to waiver overlaps, although the provider had already been paid by DoA. Claims were being rejected in the CCP because DoA clusters claims on a monthly basis. If a Medicaid recipient received similar services during that time from more than one provider (including Hospitals), one of those providers' claims would be rejected for FFP, but still paid by DoA.
How Savings Were Achieved	McKinsey reviewed DoA error data, prioritized the opportunities, and worked with DoA personnel to generate the proposed approach. After considering resource constraints, the agreed approach centered on the top three providers, who accounted for 50% of the opportunity. Implementation of the new processes to claim those funds began in April 2004 and included retroactive claiming for the previous 24 months, as allowed by federal rules.
Project Start Date	Prior to April of 2004
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement	$50,869,105	$50,806,635	$62,470	$58,752,374	$57,697,507	$1,054,867	

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Vendor Involvement and Other Incremental Costs

Incremental Costs of the Savings Project are not being accounted for at the project level. Higher level accounting is being performed on this issue.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	Fall ’03 – Spring ‘04	Reviewed DoA error data, prioritized the opportunities, and worked with DoA personnel to generate the proposed approach.	Redesign of the claiming process. Assistance in development of Web-based system for submission of Medicaid claiming information.

Qualitative Benefits

Benefits	Description (examples below)	Outcome
Improved Data Quality and Accessibility	Enhanced data quality, reliability, and integrity	As of 7/1/05, the Department on Aging will be automating the process of reconciling to all providers on a daily basis. This should eliminate a majority of the error claims that need to be resubmitted to DHFS.

Future Benefits

Benefits	Description	Projected Outcome
Data quality and accuracy	Beginning FY 2006, the Web-based system was rolled out, providing the Department with more accurate and timely information from providers, reducing the amount of error on a prospective basis.	Additional Medicaid claiming revenue

Procurement, Healthcare, and Employee Benefits (continued)

Initiative and Project Summary

Item	Description
Project Name	DD Back Claims
Project Overview	Developmental Disabilities (DD), a division of DHS, procures services for individual meeting Home and Community Based Waiver criteria. These services are eligible for federal reimbursement through the Home and Community Based Waiver (3 things are needed for Medicaid claim: eligible person, eligible service and eligible provider). Claiming rejects prevent capture of federal reimbursements. The State has two years from the date the service was paid to submit claims to the Federal government for match. The bills must pass through DHS and DPA computer systems. If they fail any one of the checks that are designed to ensure compliance with Medicaid rules, the claim is rejected and no Medicaid reimbursement is sought. This effort addressed Medicaid eligible services that could have been billed but were not—because the provider did not know the service was eligible or that the client was eligible. The team identified all services rendered that were believed could have been billed to Medicaid.
How Savings Were Achieved	Rejected claims were studied and claiming processes were analyzed to identify root causes for errors and develop tailored solutions. Solutions for key error sources implemented to recover retroactive federal funding. Once corrected, claims were verified and accepted by DPA. Additionally, the fee for service initiative which began in FY2005, converted grant dollars to a hybrid type fee for service called advance and reconcile with providers' billings determining the amount advanced each month. This conversion allowed the Department to capture significantly more claimable services than under the grant-funded mechanism.
Project Start Date	FY04
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement (e.g., State benefit through increased FFP)	See note	See note	See note	370,888,500	320,356,000	50,532,400 (resulting benefit is 25,266,200)	See note

FY04 savings included specific errors corrected with the assistance of McKinsey. At the time of this report, approximately $3 million of errors were being researched/identified to be included as validated savings.

FY05 savings reflect improvements made in process including improved eligibility and provider enrollment processes along with changes to a fee for service conversion (as noted in the above description of this project). In terms of recurring benefits, future benefits resulting from this project should exist in similar proportion to the amount of spend budgeted in FY06.

Accrual Basis Presentation (if different than Cash Basis)

Based on discussions with DHS personnel, the timing difference between the point of initiating the claim and receiving reimbursement is not significant (quarterly at most). For the purposes of this analysis, the lag does not represent a significant presentation difference.
Additionally, it was determined no benefit should be accrued for prior periods based on date of service. Although the service underlying the reimbursement occurred in previous periods, the State did not submit a claim for the revenues until the period of analysis (04, 05) and thus had not realizable, recognizable benefit in prior periods.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level. Additionally, vacant positions were filled to fulfill new responsibilities under this project. No new spending occurred.

Vendor Name	Duration	Role	Key Deliverables
McKinsey Consulting	January 2004 through August 2004	Methodology development Analysis of targeted opportunity area Data analysis and prioritization of opportunities Development and coordination of communication materials Facilitation of leading back claiming activities across programs Project management of timeline and implementation	Materials discussing the specific errors corrected and the methodology for correcting Medicaid claim rejects at DD

Qualitative Benefits

Benefits	Description	Outcome
Improved Technology Leverage	Use of specific reports to track and monitor errors/rejects Improved analysis of historical claims to establish new targets for improved reimbursement	Improved knowledge of claims and rejects
Improved management of business process	Changes in the approach (fee for service conversion) led to increased reimbursements	The fee for services conversion provided the department with additional provider data and increase confidence in information processing, enabling the Department further abilities to manage the process of claiming federal reimbursements.

Future Benefits

Benefits anticipated in the future include financial benefits similar to those noted above based on spending/voucher levels. Additionally, improved analysis and tracking of errors and spend v. voucher information improves the State's ability to target and manage performance in this area.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project name	DPA Subrogation
Project Overview	Many Medicaid beneficiaries also have private insurance coverage, which by law is considered the primary payer. The Department of Healthcare and Family Services has a Third Party Liability (TPL) unit that recoups money from private insurers. Collections come in two forms; cash recoveries require sending a previously paid medical claim to the third party for reimbursement; cost avoidance requires sending a medical claim to a third party, allowing Medicaid to pay secondary. Medicaid beneficiaries, at enrollment or at redetermination of continuing eligibility, self-declare any private insurance that they have.
How Savings Were Achieved	CMS and DHFS proposed and implemented a proactive information gathering process whereby the state collected private insurance enrollment information from private carriers and pharmacy benefit managers (PBMs) and matched it with Medicaid. Using the matched information, DHFS either billed the third party insurers for cash recoveries, or place the enrollment information into a newly created database to monitor future claims and track cost avoidance.
Project Start Date	FY04
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement (e.g., State benefit through increased FFP)	$61,159,521	$61,159,476	$65	$79,593,005	$68,977,218	$10,615,787	$10,615,787

	FY04			FY05			
'Other' Savings Categories	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Cost avoidance	$122,250,104	$122,196,273	$53,831	$104,505,751	$94,133,086	$10,372,665	$10,372,665

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Procurement, Healthcare, and Employee Benefits (continued)

Qualitative Benefits

Benefits	Description	Outcome
Improved Data Quality and Accessibility	Improved ability to leverage common information	Prior to the commencement of this initiative, communication between CMS, DPA and DOI was relatively diminished. The crossmatch project has opened the door for additional future communication among the agencies.

Vendor Involvement and Other Incremental Costs

Incremental costs of the savings project are being accounted for at a higher level. Additionally, the figures presented here are the gross figures generated by the crossmatch project initiative. Fifty percent of the savings will eventually be attributed to the Federal Government through the Medicaid matching process.

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	April '04 – March '05	Provided assistance and coordination on project between CMS, DPA and DOI. Additionally assisted DPA on estimating recoveries and matching procedures.	Not applicable, as McKinsey's role was facilitative in nature.

Future Benefits

Benefits	Description	Projected Outcome
Communications	Improved interagency communication.	Ability to achieve efficiencies and more positive outcomes on future interaction.
$ Savings	As the project is ongoing, additional cost avoidance will be achieved.	Reduction in Medicaid spending on clients with third party coverage.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	DRS Home Services Program
Project Overview	Division of Rehabilitation Services (DRS), a division of DHS, procures home services for individuals meeting certain physical disability criteria. These services are eligible for federal reimbursement through the Home and Community Based Waiver (3 things are needed for Medicaid claim: eligible person, eligible service and eligible provider). Claiming rejects prevent capture of federal reimbursements. The State has two years from the date the service was paid to submit claims to the Federal government for match. The bills must pass through DHS and DPA computer systems. If they fail any one of the checks that are designed to ensure compliance with Medicaid rules, the claim is rejected and no Medicaid reimbursement is sought. This effort addressed Medicaid eligible services that could have been billed but were not—because the provider did not know the service was eligible or that the client was eligible. The team identified all services rendered that were believed could have been billed to Medicaid.
How Savings Were Achieved	DRS and McKinsey personnel analyzed rejected claims along with the underlying claim processes to identify root causes for errors and develop tailored solutions. Solutions for key error sources were implemented to recover retroactive federal funding. Once corrected, claims were verified and accepted by DPA.
Project Start Date	FY04
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement – State benefit	$241,634,437	$168,757,672	$72,876,765 (resulting in $36,438,382 benefit)	$241,371,026	$190,554,856	$50,816,170 (resulting in $25,408,085 benefit)	See Note

Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.
In the initial phase of this project, a large number of current and prior year claims were identified and resubmitted for reimbursement. In the second year of the project, the prior year claims had already been submitted for reimbursements and therefore not available for claiming in FY05. Similarly, in FY06, the project will receive the benefit of recurring claiming. However, the amount would be difficult to project.

Accrual Basis Presentation

Based on discussions with DHS personnel, the timing difference between the point of initiating the claim and receiving reimbursement is not significant (quarterly at most). For the purposes of this analysis, the lag does not represent a significant presentation difference.
Additionally, it was determined no benefit should be accrued for prior periods based on date of service. Although the service underlying the reimbursement occurred in previous periods, the State did not submit a claim for the revenues until the period of analysis (04, 05) and thus had not realizable, recognizable benefit in prior periods.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Name	Duration	Role	Key Deliverables
McKinsey Consulting	August 2003 through August 2004	Methodology development Analysis of targeted opportunity area Data analysis and prioritization of opportunities Development and coordination of communication materials Facilitation of leading back claiming activities across programs Project management of timeline and implementation	Correcting Medicaid Claim Errors at the Division of Rehabilitation Services materials

Qualitative Benefits

Benefits	Description	Outcome
Improved Technology Leverage	Use of specific reports to track and monitor errors/rejects Improved analysis of historical claims to establish new targets for improved reimbursement	Improved knowledge of claims and rejects
Improved management of business process	Changes in the approach, process and policy for approving eligibility/enrollment resulted in improved ability to submit for reimbursement	Enhanced FFP

Future Benefits

Benefits anticipated in the future include financial benefits similar to those noted above based on spending/voucher levels. Additionally, improved analysis and tracking of errors and spend v. voucher information improves the State ability to target and manage performance in this area.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Early Intervention Admin Costs
Project Overview	This effort involved seeking FFP for administrative costs incurred from the operation, implementation and enhancement of the Early Intervention program, (including but not limited to the Cornerstone IT system).
How Savings Were Achieved	Achieved through a request for approval for the costs with CMS (Centers for Medicare and Medicaid Services). McKinsey, DHS, and DPA personnel initiated the request and reimbursement began in 2005 for two prior years.
Project Start Date	Originally requested in 2002 but not implemented until 2004. Claims and receipt of reimbursements (demonstrated by deposits tracked by DPA) began in December 04 for the two prior years.
Project Completion Date	Last deposit was received on 6/10/05 – the benefits will be ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement – State Benefit (New Federal Funds Participation)				$5,301,972		$5,301,972	See Note

Based on discussions with DHS personnel, recurring revenue will occur, but has not been estimated at the time of the analysis.

Accrual Basis Presentation

Based on discussions with DHS personnel, the timing difference between the point of initiating the claim and receiving reimbursement is not significant (quarterly at most). For the purposes of this analysis, the lag does not represent a significant presentation difference.

Additionally, it was determined no benefit should be accrued for prior periods based on date of service. Although the service underlying the reimbursement occurred in previous periods, the State did not submit a claim for the revenues until the period of analysis (04, 05) and thus had not realizable, recognizable benefit in prior periods.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level. Additionally, vacant positions were filled to fulfill new responsibilities under this project. No new spending occurred.

Vendor Name	Duration	Role	Key Deliverables
McKinsey Consulting	January 2004 through August 2004	Analyze claiming strategies and federal process Development and coordination of communication materials Facilitation of leading back claiming activities across programs	Achieving Savings through Increasing Claims in CHP Early Intervention materials

Future Benefits

Benefits	Description	Projected Outcome
Future Claiming	Continued collection of administrative costs on Early Intervention program	Additional claiming in future years.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	GID Stepchildren
Project Overview	The State provides health benefits for qualifying stepchildren of members. On Jan 1, 2004, 1047 stepchildren were terminated from benefit plans in absence of proper documentation for eligibility. Once proper documentation was provided, stepchildren were reinstated. Of the stepchildren remaining terminated, some of the members were terminated, ending the savings for that dependent. Of the remaining terminees, it is possible that they can be reinstated once eligibility documentation is provided.
How Savings Were Achieved	Savings is achieved by accruing the dollar value of the benefit for each month that the stepchild was terminated, depending upon the health carrier and the number of other dependents carried by the member.
Project Start Date	Prior to 1/1/04
Project Completion Date	As members may resubmit paperwork for consideration, and eligibility of stepchildren is being checked, the project is considered ongoing.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reductions (e.g., Early retirement programs)	531,531	$0	$531,531	$963,649	$0	$963,649	

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Accrual Basis Presentation (if different than Cash Basis)

There is no material difference between the cash basis presentation and accrual basis presentation for this project

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Vendor Name	Duration	Role	Key Deliverables
McKinsey & Co.	Fall 2003	Held a brainstorming session in fall 2003 to solicit ideas to save money. Organized a project team; researched methods used by other employers; sought and received approval from Director's office; initial benefits calculation	Initial benefits calculation

Procurement, Healthcare, and Employee Benefits (continued)

Qualitative Benefits

Benefits	Description (examples below)	Outcome
Improved management of business process	Greater span of control	Proves the integrity of the medical program for stepchildren. Members must now prove that the stepchildren are a legitimate part of the program.

Future Benefits

Description	Projected Outcome
Proof of the integrity of the medical program.	More accurate medical program, as members now must prove the eligibility of their stepchildren.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Group Insurance Investment Management
Project Overview	CMS owns and manages a bank account at Northern Trust Bank (NTB) for both HealthLink and CIGNA accounts for each of the four insurance programs (State, Local, TRIP, and CIP). A team of CMS employees met with account representatives from NTB to study the then current method of investment of State funds and suggest any possible improvements to the process.
How Savings Were Achieved	CMS eliminated the use of Repurchase Agreement (Repos) sweeps, opting for U.S. Government Only Money Market Accounts (MMAs) for investment purposes. MMAs provide a higher yield and lower fees than the repos
Project Start Date	3/1/04
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$1,000	$0	$1,000	$3,000	$0	$3,000	

	FY04			FY05			
Other' Savings Categories	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Other – Investment Returns	$73,080	$22,272	$50,808	$521,213	$428,574	$92,639	
Other Categories Total	$73,080	$22,272	$50,808	$521,213	$428,574	$92,639	

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04. Note, investment returns were compiled together with rate returns due to the immaterial nature in presentation.

Accrual Basis Presentation (if different than Cash Basis)

No material difference between cash basis presentation and accrual basis presentation.

Vendor Involvement and Other Incremental Costs

This savings initiative incurred no incremental costs as existing staff is currently performing the reengineered investment strategy.

Procurement, Healthcare, and Employee Benefits (continued)

Qualitative Benefits

Benefits	Description (Examples Below)	Outcome
Improved Decision Making	Improved decision making through easy access to accurate information	Changing the investment strategy to actively manage the unit's portfolio on a daily basis provides the unit with detailed accurate information on which decisions can be made with more efficiency and confidence.
Improved management of business process	Decreased non-compliance risk Greater span of control	By investing in the money market accounts, State funds held at NTB are collateralized on a continual basis, eliminating the risk of non-compliance with State investment guidelines. By receiving detailed information on a daily basis, the accounting unit is able to exercise greater oversight of the actions of the vendors, providing an additional check on procedures.

Future Benefits

Description	Projected Outcome
Detailed, accurate information as a result of changing the investment strategy to actively manage the units' portfolio	Decisions can be made with more efficiency and confidence
By holding the funds at NTB, the funds are collateralized on a daily basis	Eliminating the risk of non-compliance with State investment guidelines
Receipt of data on a daily basis	Accounting unit is able to exercise greater oversight of the actions of vendors

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Family Case Management
Project Overview	Family Case Management (FCM) helps families with pregnant women and children to obtain health care services and other assistance they may need to have a healthy pregnancy. Targeted Intensive Prenatal Case Management (TIPCM) is an initiative to improve the health of newborns and reduce Medicaid expenditures during the first year of life. In previous years, DHS paid for program services out of two distinct lines, the Medicaid line and the Indigent line. DHS did not apply for fed matching funds on the Indigent line.
How Savings Were Achieved	A review of the process identified program funds expended from the Indigent line would be eligible for federal Medicaid matching. Beginning in FY2004, expenditures from FY2004 and prior years from this line were claimed for FY2004. The process continued in FY2005 for FY2005 expenditures.
Project Start Date	FY04
Project Completion Date	Ongoing claiming of the Indigent spending on Medicaid, although both lines have been combined for FY 2006.

Financial Benefits

Financial Benefits	FY04			FY05			
Table Title	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement (Increased FFP)	$17,293,862	$0	$17,293,862	$6,857,784	$0	$6,857,784	

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Accrual Basis Presentation (if different than Cash Basis)

Based on discussions with DHS personnel, the timing difference between the point of initiating the claim and receiving reimbursement is not significant (quarterly at most). For the purposes of this analysis, the lag does not represent a significant presentation difference.
Additionally, it was determined no benefit should be accrued for prior periods based on date of service. Although the service underlying the reimbursement occurred in previous periods, the State did not submit a claim for the revenues until the period of analysis (04, 05) and thus had not realizable, recognizable benefit in prior periods.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Name	Duration	Role
McKinsey & Co.	FY04	McKinsey assisted with overall opportunity identification in this area and managed the progress

Qualitative Benefits

Benefits	Description	Outcome
Improved Decision Making	Better methodical process for evaluating program and capturing federal reimbursement revenue	Reexamination of spending by the department within all programs
Improved Data Quality and Accessibility	Through further analysis of program spending, DHS is increasing their ability to access and manipulate data to the benefit of all programs.	More efficient management of programs across the agency

Future Benefits

Benefits anticipated in the future include financial benefits similar to those noted above based on spending/voucher levels. Additionally, improved analysis improves the State's ability to target and manage performance in this area.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Mental Health Back Claim – Error Correction
Project Overview	Mental Health provider agencies submit Medicaid service bills every two weeks. The bills must pass through DHS and DPA computer systems. If they fail any one of the checks that are designed to ensure compliance with Medicaid rules, the claim is rejected and no Medicaid reimbursement is sought. This effort addressed Medicaid eligible services that could have been billed but were not—because the provider did not know the service was eligible or that the client was eligible. The team identified all services rendered that were believed could have been billed to Medicaid. The effort involved two training sessions for contract managers, three well-attended forums for providers, and creation of a weekly reporting requirement for case managers to contact each provider for whom they were responsible and report back on issues and progress to the team.
How Savings Were Achieved	The DHS and McKinsey team identified all services rendered that were believed could have been billed to Medicaid. The effort involved two training sessions for contract managers, three well-attended forums for providers, and creation of a weekly reporting requirement for case managers to contact each provider for whom they were responsible and report back on issues and progress to the team.
Project Start Date	FY04
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement – State benefit			11,171,118 (resulting in 5,585,559 benefit)			See note	

At the time of this project, DHS was in the process of estimating the amount of FY05 benefits.
In terms of recurring benefits, future benefits resulting from this project should exist in similar proportion to the amount of spend budgeted in FY06.

Accrual Basis Presentation (if different than Cash Basis)

Based on discussions with DHS personnel, the timing difference between the point of initiating the claim and receiving reimbursement is not significant (quarterly at most). For the purposes of this analysis, the lag does not represent a significant presentation difference.
Additionally, it was determined no benefit should be accrued for prior periods based on date of service. Although the service underlying the reimbursement occurred in previous periods, the State did not submit a claim for the revenues until the period of analysis (04, 05) and thus had not realizable, recognizable benefit in prior periods.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level. Additionally, vacant positions were filled to fulfill new responsibilities under this project. No new spending occurred.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Name	Duration	Role	Key Deliverables
McKinsey Consulting	January 2004 through August 2004	Methodology development Analysis of targeted opportunity area Data analysis and prioritization of opportunities Development and coordination of communication materials Facilitation of leading back claiming activities across programs Project management of timeline and implementation	MH error correction effort summary materials

Qualitative Benefits

Benefits	Description	Outcome
Improved Technology Leverage	Use of specific reports to track and monitor errors/rejects Improved analysis of historical claims to establish new targets for improved reimbursement	Improved knowledge of claims and rejects
Improved management of business process	Changes in the approach, process and policy for approving eligibility/enrollment resulted in improved ability to submit for reimbursement	Enhanced FFP

Future Benefits

Benefits anticipated in the future include financial benefits similar to those noted above based on spending/voucher levels. Additionally, improved analysis and tracking of errors and spend v. voucher information improves the State's ability to target and manage performance in this area.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	HMO Premium Negotiation (2)
Project Overview	Requested and received from two vendors a reduction in the FY 2004 rates for the period of 11/1/03 – 6/30/04.
How Savings Were Achieved	Both HMO Illinois and HealthLink OAP agreed to reduce their capitated rates for the aforementioned time period.
Project Start Date	Prior to 11/1/03
Project Completion Date	Prior to 11/1/03

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$87,421,644	$85,672,857	$1,748,788				

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Qualitative Benefits

Benefits	Description (examples below)	Outcome
Improved Service Quality	Increased customer accessibility and responsiveness	Effective contract negotiations foster competition within the marketplace. In the long run, this competition will require vendors to become more efficient and effective, ultimately resulting in improved service to the benefit recipients.
Improved management of business process	Greater span of control	Successful contract renegotiations with Managed Care vendors should inform the vendors that the State is going to continue to more aggressively pursue more cost effective rates on medical services in the future.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Vendor Name	Duration	Role
McKinsey & Co.	Spring of 2003	Mckinsey acted as facilitator for Benefits Design Team, which provided initiative ideas to management team.

Future Benefits

Description	Projected Outcome
Refinement to business procedures	Successful contract renegotiations with Managed Care vendors should inform the vendors that the State is going to continue to more aggressively pursue more cost effective rates on medical services in the future.
Improved Vendor Service	Effective contract negotiations foster competition within the marketplace. In the long run, this competition will require vendors to become more efficient and effective, ultimately resulting in improved service to the benefit recipients.

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Hospital Rate Negotiation
Project Overview	Project consists of two separate negotiations with the State's PPO network hospitals.
How Savings Were Achieved	During the middle of FY 2004, CMS approached its PPO hospitals with a request to reduce the current years per diem rate. 36 hospitals agreed to the rollback. Rates were rolled back to the FY 2003 rates. Savings were generated by receiving a reduced rate on any inpatient hospitalization that was paid under the per diem arrangement. The second portion of the project involves the aggressive negotiation of the FY 2005 rates. Of the hospitals in the PPO Network, 85 agreed to a 0% increase in the per diem rate as compared to FY 2004 rates. Savings were generated by receiving a rate lower than what would have otherwise been negotiated on any inpatient hospitalization that was paid under the per diem arrangement.
Project Start Date	Prior to 1/1/04
Project Completion Date	7/1/04

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$11,135,996	$10,799,832	$336,164	$4,000,903	$3,870,513	$130,390	

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Name	Duration	Role
McKinsey & Co.	Spring of 2003	Mckinsey acted as facilitator for Benefits Design Team, which provided initiative ideas to management team.

Qualitative Benefits

Benefits	Description (examples below)	Outcome
Improved Service Quality	Increased customer accessibility and responsiveness	Effective contract negotiations foster competition within the marketplace. In the long run, this competition will require vendors to become more efficient and effective, ultimately resulting in improved service to the benefit recipients.
Improved management of business process	Greater span of control	Successful negotiations with PPO hospitals in terms of rollbacks and 0% increases should allow the State to continue its aggressive stance on medical pricing.

Future Benefits

Description	Projected Outcome
Potential negotiation benefits. Keeping the baseline low in the first year allows for a lower starting point for future years' negotiations	Lower rates in future years

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	IPHCA Negotiation
Project Overview	DHS has a contract with a vendor called Illinois Primary Healthcare Association, Inc. (IPHCA) to provide maintenance software development and billing support for a critical application. DHS expended $11.6 million in FY03 with IPHCA on a contract that ends in June 2004, with a renewal option of one year.
How Savings Were Achieved	Benchmarking of IPHCA's rates suggested that they were 10–12% above industry standards on the hourly rate piece of the contract. A DHS team conducted negotiations with IPHCA to achieve rate reductions while maintaining the current service levels. The levers used were IPHCA's dependence on the DHS business, the competitive alternatives DHS has, and the offer to renew the contract for one year. Based on the negotiations, the IPHCA rates were reduced.
Project Start Date	Prior to 2/1/04
Project Completion Date	Re-Negotiated rates were effective 2/1/04, but saving accrue through FY2005.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Rate Reductions (e.g., Renegotiated pricing)	$2,730,432	$2,348,171	$382,260	$6,497,007	$5,587,426	$909,581	

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Vendor Name	Duration	Role
McKinsey & Co.	FY04	McKinsey assisted with rate analysis and benchmarking, opportunity identification, and developing negotiation strategies

Qualitative Benefits

Benefits	Description	Outcome
Improved management of business process	Greater span of control	Benchmarking and renegotiating the rates for these two fiscal years should allow the department to further enhance its ability to cost effectively purchase IT services in the future.

Procurement, Healthcare, and Employee Benefits (continued)

Future Benefits

Benefits	Description	Projected Outcome
Improved Negotiation techniques	Benchmarking and renegotiating the rates for these two fiscal years should allow the department to further enhance its ability to cost effectively purchase IT services in the future.	Savings from more cost effective negotiation of IT services

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Medicare Migration – Over 65 – Disability
Project Overview	92% of retirees that are over 65 and receiving health benefits through the State of Illinois Group Insurance are eligible for Medicare coverage. The State passed legislation on 7/1/92 requiring all retirees eligible for Premium Free Medicare A to purchase Medicare Part B or have their benefits reduced. The 8% of retirees without full Medicare are being required to provide documentation from the Social Security Administration stating that they do not qualify for Premium Free Medicare A or risk of having their medical claims denied. CMS has centralized collection of such documentation and is requiring members to provide such documentation. CMS has in the process updated its files on members whose Medicare information was not recorded in the membership file.
How Savings Were Achieved	Savings are achieved in three ways. First, in the fully insured programs, by switching members from non-Medicare status to Medicare status, CMS pays the vendor a lower rate. Second, in the self insured programs, CMS saves on current and future claims using Medicare as primary payer. Third, by recognizing a members eligibility, CMS is able to recover any portion of previous claims that were paid incorrectly under Medicare Coordination of Benefits (COB) rules.
Project Start Date	11/1/03
Project Completion Date	Ongoing

Financial Benefits

	FY04			FY05			
Revenue Benefits	Revenue	Baseline	Benefit	Revenue	Baseline	Benefit	Recurring Benefit
Enhanced Reimbursement (e.g., Payments from private insurers)	$67,429	$0	$67,429	$571,763	$0	$571,763	The savings reflect reimbursements for retroactive claims for members. No anticipated recurring benefits exist.

	FY04			FY05			
'Other' Savings Categories	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Cost avoidance	$1,369,740	$694,619	$675,591	$11,732,428	$5,920,665	$5,811,763	$4,435,794
Other Categories Total	$1,369,740	$694,619	$675,591	$11,732,428	$5,920,665	$5,811,763	$4,435,794

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Accrual Basis Presentation (if different than Cash Basis)

Cost avoidance amounts reflect no difference between cash and accrual since the amounts were similarly recognized when identified as savings. Similarly, the cash recoveries noted as enhanced reimbursements were treated consistently for cash and accrual purposes. It was assumed no significant timing differences existed for these cash recoveries from the point the savings were identified by the vendors (Primax/Rawling) and when the net savings in cash recoveries was sent to the State.

Procurement, Healthcare, and Employee Benefits (continued)

Vendor Involvement and Other Incremental Costs

McKinsey was involved in this effort by helping promote a pilot program previously developed. McKinsey assisted by identifying members that could be transitioned between Medicare programs, prioritizing the effort necessary to attain savings, and validating the previous estimated results. The incremental cost associated with these activities cannot be segmented from the larger procurement initiatives and thus these incremental costs will be discussed at the initiative level. No other incremental costs were noted.

Qualitative Benefits

Benefits	Outcome
Improved Service Quality	Certain aspects of this initiative resulted in a portion of membership converting from a Medicare Part B reduced status to Medicare primacy. Although of no financial benefit to the State, this conversion resulted in a financial benefit to the member, further improving the relationship between the plan and the benefit recipient.

Future Benefits

Benefits	Description	Projected Outcome
Cost avoidance	As noted above, future benefits will be gained by appropriately identifying retirees eligible for Medicare coverage will avoid unnecessary health care payments made by the state.	Avoided health care costs incurred by the state

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	**OAP Expansion**
Project Overview	Expanded the coverage area of the HealthLink Open Access Plan to include middle third of State.
How Savings Were Achieved	Savings are achieved by providing members and their dependents with an additional option for health coverage that is less expensive for the state than Quality Care.
Project Start Date	Prior to the FY 2005 Benefits Choice Period of 5/1/04 – 5/31/04
Project Completion Date	The project was considered completed as of the end of the Benefits Choice Period. However, as the expansion allows additional members and dependents to enroll in HealthLink in those counties, the savings are ongoing.

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reductions				$6,145,722	$5,001,753	$1,143,969	

Going forward, recurring benefits are expected to be similar to those achieved in FY05, as cost benefits from OAP will continue into the future
* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Vendor Name	Duration	Role
McKinsey & Co.	Fall 2003	Held a brainstorming session in fall 2003 to solicit ideas to save money. Organized a project team; researched methods used by other employers; sought and received approval from Director's office; initial benefits calculation

Qualitative Benefits

Benefits	Description (examples below)	Outcome
Improved Service Quality	Enhanced overall customer focus (internal and external customers)	Allowing OAP to expand into the additional counties increased the member choices in their healthcare providers.
Improved management of business process	Greater span of control	Allowing OAP to expand into these counties provides for increased competition. This competition should allow CMS to negotiate more effectively in future years.

Procurement, Healthcare, and Employee Benefits (continued)

Future Benefits

Description	Projected Outcome
Increased ability to negotiate future rates as a result of increased competition	Lower future rates
Expansion of OAP into additional counties	Increased service levels for customers

Procurement, Healthcare, and Employee Benefits (continued)

Item	Description
Project Name	Plan Redesign
Project Overview	Project consisted of completion of negotiations between representatives of AFSCME, CMS, and the Governor's Office.
How Savings Were Achieved	Savings were achieved by changing specific terms of the of the negotiated labor contract with AFSCME (subsequently extended to all union and non-union personnel) regarding the level of benefits, provided by the State of Illinois, received by State employees, retirees, and dependents. Benefit levels include copays, coinsurance, member contributions, deductibles, out of pocket maximums, etc.
Project Start Date	February, 2004
Project Completion Date	June, 2004

Financial Benefits

	FY04			FY05			
Savings Benefits	Baseline	Spend	Benefit	Baseline	Spend	Benefit	Recurring Benefit
Budgeted Spend Reductions				$1,494,279,167	$1,458,649,243	$34,372,780	$40,119,947

* Recurring Benefit is the portion of the FY06 Benefit that is recurring from FY05.

Procurement, Healthcare, and Employee Benefits (continued)

Qualitative Benefits

Benefits	Description (Examples Below)	Outcome
Improved Service Quality	Improved benefit recipient education	By redesigning several components of the benefits package, utilizing cost sharing mechanisms, the Department was able to impress upon the benefit recipients the value of the package. Providing an understanding of the value of the benefits is paramount to creating more conscientious healthcare consumers.
Improved management of business process	Increased focus and control of financial processes	By achieving successes in certain areas during the negotiation of the labor contract, the Department has gained additional knowledge of the specific benefits-related interests of the labor force. This knowledge should assist the Department during future contract negotiations.

Vendor Involvement and Other Incremental Costs

The only significant incremental cost associated with this project was consulting services and related fees charged by McKinsey Consulting. As these amounts cannot be segmented by project, the incremental costs will be discussed at the initiative level.

Vendor Name	Duration	Role
McKinsey & Co.	Fall 2003	Held a brainstorming session in fall 2003 to solicit ideas to save money. Organized a project team; researched methods used by other employers; sought and received approval from Director's office; initial benefits calculation

Future Benefits

Benefits	Description	Projected Outcome
Negotiation ability	Negotiating certain plan design feature shall allow the department to achieve additional savings through continued aggressive strategies.	Additional savings generated during next contract cycle

Appendix B—Savings Validation Methodology

This appendix's purpose is to explain CMS's approach for measuring and validating Efficiency Initiative savings. Specifically, this document provides:

- A statement of the objectives of this effort
- A description of the overall approach
- Definition of roles and responsibilities
- A template for summarizing project savings and results
- Instructions for completing the project savings template
- Guidance on savings models, documentation, accounting treatment, and other key concepts
- A glossary of common terms and concepts

Objectives

The objectives of the savings validation effort were to:

- Measure financial and non-financial benefits realized by the State as a result of the Efficiency Initiatives implemented
- Document and support the savings measurements with evidence, establishing whenever possible a clear link to official records of actual financial transactions (e.g., expenditure reports, vendor invoices, payments, etc.)
- Conclude the analysis of FY04 savings by producing calculations for that financial period (validated as of the report date)
- Produce good faith projections of FY05 savings based on information available at the time of this report (FY05 activity and financial records were not yet complete). The analysis was completed as of September 30, 2005.

Overall Approach

The project's main tasks, prioritization of effort, team structure, and roles and responsibilities are described below.

Main Tasks

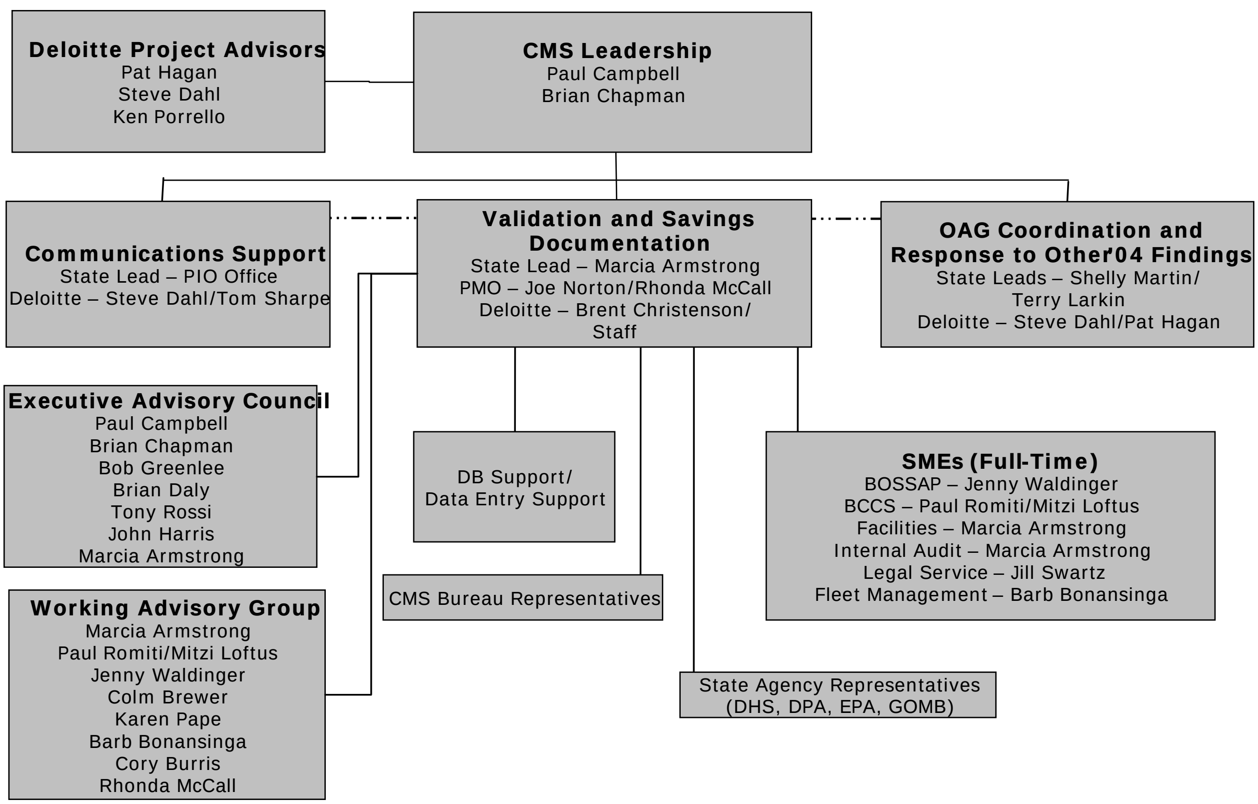
1. **Start-up and Design.** Establish the approach and standards for completing the savings validation effort. This includes planning the effort, mobilizing resources, designing validation guidelines and templates, and establishing project management procedures.
2. **Data Collection.** Activities included in this task include:
   - For each Efficiency Initiative and related Savings Project, developing sound and reasonable models (i.e., formulas) for calculating actual savings realized. The goal is to build or refine previous models that will produce actual ***measurements*** of savings by using records of activity for the periods analyzed.
   - Note: Savings **estimate** models already developed during the Efficiency Initiative effort can and should be used to expedite the development of the savings **measurement** models, but need to be modified as appropriate to use "actuals" as inputs to calculations.

- Gathering data, supporting evidence, and source documentation, for input to the financial models. Ideally, data used in calculations will be directly traceable to the State's official financial records (e.g., agency financial reports, the Comptroller's website, expenditure report by object code, vendor contracts and payments, payroll records, etc.).
- Evaluating methods used by other organizations to identify leading practices for savings validation efforts.

3. **Data Summarization.** Design, build and populate a data repository to support summary reporting requirements.
4. **Document Library Maintenance.** Develop and implement procedures for the submission, indexing and retention of documents.
5. **Review and Analysis.** Resolve issues that may have arisen regarding financial models or evidence; and review, finalize and approve savings calculations.
6. **Reporting.** Finalize validation reports and documentation; respond to inquiries; and organize and summarize the results of the individual savings validations into an overall report.

Project Organization Chart

The structure and reporting relationships of the Project Team are illustrated in the chart below.



Roles and Responsibilities

The following roles and responsibilities have been defined for the Project Team:

Role	Responsibilities
Subject Matter Experts	• Gather and submit existing Efficiency Initiative and Savings Project materials • Develop savings measurement models • Gather savings model data (evidence) • Review savings models and evidence with project leaders/advisors • Calculate savings • Complete Savings Project Report templates • Support development of Validation Report as needed
Working Council	• Formulate ideas, strategies and savings methodologies • Develop glossary of terms • Develop backup documentation • Identification of savings • Data analysis and peer review • Procedures and policies • Support OAG compliance efforts • Compile Savings Templates and develop Validation Report
Executive Advisory Council	• Review Charter • Discuss overarching issues • Coordinate agency and external stakeholder issues
CMS Leadership	• Provide project direction and vision • Address resource issues • Evaluate validation, analysis and reporting options • Define final approach based on input from team members and advisors
Project Advisors (Deloitte)	• Provide guidance and consultation for savings model development • Review savings models/evidence/calculations
Project Management	• Establish project plan and approach • Implement document management procedures • Track progress and issues • Provide status reports to leadership
Communications Support	• Inventory past Efficiency Initiative communications • Develop communications plan based on key milestones • Work with Project and CMS leadership to frame and track future communications • Review draft Validation Report and offer communication strategies
OAG Coordination	• Serve as primary liaison for interaction with the OAG • Manage CMS communications, documentation, and response to OAG findings

Guidance on Key Concepts

Financial Periods

Three historical financial periods considered in this effort:

- Fiscal Year 2003 (July 1, 2002 – June 30, 2003)
- Fiscal Year 2004 (July 1, 2003 – June 30, 2004)
- Fiscal Year 2005 (July 1, 2004 – June 30, 2005)

Evidence / Traceability

Whenever possible, savings calculations were supported by information available from official and verifiable sources. For example, ‘actuals’ from the following types of sources would be used:

- State Financial Reports
- Comptroller Website (e.g., report expenditure by Object Code)
- State Contract/Payment Records
- State Payroll System

The goal is to establish a traceable link from official records of actual financial transactions/results to project savings.

For some savings projects, the link between activities and financial records may not be directly aligned with one of the above sources, may be obscured by unrelated activities, or may be clouded by high transaction volumes. In these cases, it may be necessary to use a formula to calculate expenditure levels. One method of doing this is to use an activity level that can be measured and multiply it by an average cost rate to calculate expenditure. For example, a reduction from 20 FTEs to 17 FTEs would result in the calculation of three multiplied by average FTE cost to estimate savings in labor cost.

Financial Presentation

The Financial Benefits of each Savings Project will be presented on a cash basis and also, if significant timing differences exist, on an accrual basis. Expenditures for capital assets will be noted as such, but will generally be treated as an outflow of funds in the year of acquisition, rather than being amortized over the life of the asset, for purposes of calculating savings.

Savings Categories

In this report and in the underlying project name (Savings Validation), the term savings is broadly used to refer to all types of financial benefits gained through the impacts of the various transformation initiatives.

Cost Savings

- **Reduced Baseline Appropriation.** Reduction in available resources based on across-the-board General Assembly actions or GOMB targeted cuts in certain areas.
- **Reduction from Budgeted Spend.** A reduction in the projected/budgeted resources (e.g., staff time, materials, equipment) used for an activity or business process, as a result of a Savings Project.
- **Rate Reductions.** Obtaining lower rates or prices for goods or services purchased by the State.
- **Volume Reductions.** Reducing the amount of a good or service used. Savings captured in this category will include projects that intentionally sought volume reductions through direct action.

Revenues

- **Refunds / Credits.** Payments made to the State by vendors as a result of a Savings Project.
- **New Revenue.** New streams of revenue instituted by the State.

- **Enhanced Reimbursement.** Improvements in the accuracy or completeness of a business process that generates a higher rate of recovery of funds from external organizations.

The table below describes example savings projects and how they map to the above categories.

Cost Savings	Method	Description	Example
Reduced Baseline Appropriation	Reduction in available funds	Baseline spending reductions defined by General Assembly	Across the board budget cuts
Reduction in Budgeted Spend	Reduce Headcount	Reduced use of appropriations compared to historical amounts	Permanently reduced funded vacant positions and hiring freezes
	Reduce Activity Levels	Prevent or discontinue budgeted expenditures/activities	Cancelled project
Rate Reduction	Unit Price Reduction	A saving is realized by getting a better rate per unit	Negotiate a better rate for outside contractors
	Reduced "Off-contract" Spend	Improve price paid by shifting off-contract spend to preferred suppliers/contracts	Ensure agencies are using preferred contractors
Volume Reduction	Reduction in Quantity Purchased	Reduction in total spend through reduced quantity purchased (relative to forecast)	Reduced usage of contractors
Revenues	**Method**	**Description**	**Example**
Refunds/Credits	Refunds/Credits	Account credits or refunds made by supplier, typically based on achieving certain spend thresholds	Receiving a credit of billed amounts
New Revenue	New Revenue Streams	Finding new sources of revenue	Funds resulting from equipment auctions
Enhanced Reimbursement	Reimbursement Process Improvements	Improving the accuracy/completeness of a reimbursement process	Increasing Federal fund participation on medical assistance programs

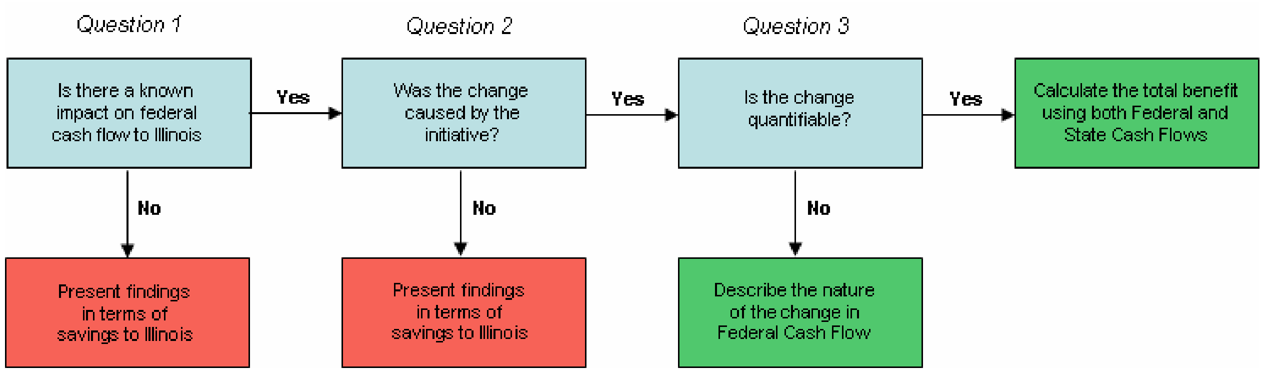
In addition to the above savings categories, benefits determined to be "cost avoidance" were additionally calculated and presented. "Cost Avoidance" is a type of benefit resulting from the prevention of a likely, but non-budgeted, expenditure in the current or a future period. Examples may include:

- For a business process with an expanding work load, implementing of automated procedures that allow the organization to avoid the creation of additional positions
- Adopting practices to extend the life of a class of assets, resulting in a reduction in the rate of replacement

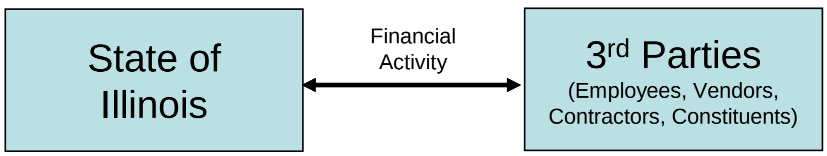
An important aspect of the savings achieved by the State of Illinois is the change in the flow of funds between Illinois and the Federal government resulting from savings initiatives.

Like all states, Illinois shares the costs of many of its programs and services with the Federal government. Thus, in some cases, a portion of savings achieved by a specific savings initiative could be shared with the Federal government.

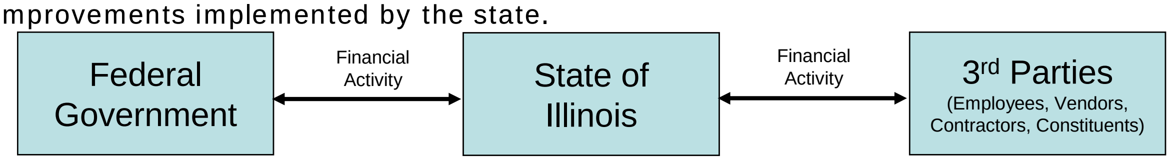
The Savings Validation team used the decision criteria described below to analyze and characterize changes in Federal funds for each savings initiative.



In most cases, changes in Federal funds were nonexistent, immaterial, or not caused by the savings initiative being validated. In these cases, the team focused on validating savings by documenting financial activity between the State and '3rd Parties' (its employees, contractors, vendors, and constituents).



In cases where there was a known, quantifiable Federal impact caused by a savings initiative, the team included funds between the Federal government and the State of Illinois in its analysis and findings. Benefits impacting Federal funds primarily related to enhanced reimbursements and cost avoidance. These benefits either increased State savings (resulting in an offsetting cost to the Federal government) or were in Federal benefits from improvements implemented by the state.



Incremental Cost Categories

New expenditures made for the purpose of initiating or implementing a savings project.

Amounts included as incremental costs were new investments, meaning only those expenses that would not have occurred, or money that would not have been spent, if the savings project had not been initiated.

Examples of investment costs include purchasing equipment, contracting with consultants, or creating a staff position for a specific savings project or initiative.

It is important to quantify these costs to support a complete and reasonable assessment of each of the savings projects individually and of the overall effort in general.

Cost Savings

The general formula used to calculate the cost savings benefit was: Baseline—Current Spend

Categories	Calculation	Evidence
Reduced Baseline Appropriation	• Measure reductions in appropriated baseline funding. • Baseline is the original baseline appropriation for the current year, Spend is the actual appropriation for the current year: Baseline = A0 Spend = A1 • Savings Benefit = A0 – A1	• Budget and Appropriation documents
Reduction of Budgeted Spend	• Measure the reduction from a projected (budgeted) level of spending. • Baseline is the projected level of expenditure in the current year, Spend is the actual expenditure in the current year: Baseline = EP Spend = EA (typically 0) • Savings Benefit = EP – EA	• Detail Object Code expenditure reports • Budget documents • Vendor payments • HR/Payroll system reports
Rate Reductions	• Measure the financial impact of reduced prices using current activity levels. • Baseline is the original price times current activity level, Spend is the current price * current activity level: Baseline = P0 * V1 Spend = P1 * V1 • Savings Benefit = (P0 * V1) – (P1 * V1)	• Vendor contracts • Purchase orders • Vendor invoices • Vendor payments
Volume Reductions	• Measure the financial impact of reduced volume using original prices. • Baseline is the original volume times original price, Spend is the current volume times original price: Baseline = V0 * P0 Spend = V1 * P0 • Savings Benefit = (V0 * P0) – (V1 * P0)	• Vendor contracts • Purchase orders • Vendor invoices • Vendor payments

Revenues

The general formula used to calculate the revenue benefit was: Current Revenue—Baseline

Categories	Calculation	Evidence
Refunds/ Credits	• Sum of refunds/credits received. • Baseline would be 0, Revenue would be the sum of refunds/credits received for activity in the fiscal year: Revenue = R1 Baseline = 0 • Revenue Benefit = R1–0	• Payments received
New Revenues	• Sum of receipts for new revenue streams. • Baseline would be 0, Revenue would be the sum of the new revenues received for activity in the fiscal year: Revenue = R1 Baseline = 0 • Revenue Benefit = R1–0	• Payments received
Enhanced Reimbursement	• Measure reimbursements that were obtained as a result of Savings Project. • Revenue is the current activity level times the current rate of recovery, Baseline is the current activity level times the original recovery rate: Revenue = R1 * V1 Baseline = R0 * V1 • Revenue Benefit = (R1 * V1) – (R0 * V1)	• Payments received

Explanation of Variables:

A0 = Original appropriated funding

A1 = Final actual appropriated funding

EP = Projected level of Expenditure/Spending for the current year that was budgeted **before** the Savings Project

EA = Actual Expenditure/Spending level experienced **after** Savings Project (typically zero)

P0 = Rate/Unit Price paid **before** Savings Project

P1 = Rate/Unit Price paid **after** Savings Project

V0 = Volume/Activity level experienced **before** Savings Project

V1 = Volume/Activity level experienced **after** Savings Project

R0 = Revenue/Rebates/Reimbursement Recovery Rates received **before** the Savings Project

R1 = Revenue/Rebates/Reimbursements Recovery Rates received **after** or as a result of the Savings Project

F0 = Fee/Charge per unit received **before** Savings Project

F1 = Fee/Charge per unit received **after** Savings Project

Baseline

Savings will generally be calculated by finding the difference between an actual expense or revenue amount and its 'baseline'. The 'baseline' for a savings category for a given project will typically be:

- The same expense/revenue amount from a previous financial period, or
- The amount that would reasonably have been expected to occur in the current period if the savings project had not occurred

For more detailed information, please refer to the previous sections.

One-time vs. Recurring Savings

Key points regarding 'One-time' savings:

- 'One-time' savings occur only once and are not expected to be realized on a recurring basis
- Examples are the recovery of an overpayment, savings in the acquisition of new software, and rebates for expenditure already incurred. Such savings will typically only be captured in one time period in one financial year
- Obligated expenditures deferred to a future period are not one-time savings

Key points regarding 'Recurring' savings:

- Savings that are expected to be realized on an ongoing basis
- Once all of the actions are complete to realize these savings, they are expected to continue to impact the organization for the foreseeable future

On the Savings Project template, there is a column to record recurring savings in FY05. In this column, please enter the portion of the Savings or Revenue Benefit in FY05 that is recurring from FY04. For example, for a given saving category, if all of the FY05 savings was recurring from FY04, then the FY05 'Benefit' and 'Recurring Benefit' numbers would be equal. If a $500,000 savings occurred in FY04 and again in FY05, and an additional savings of $250,000 was obtained in FY05, then the FY05 savings would be $750,000 and the Recurring saving would be $500,000.

Investment Cost Categories

Investment costs are incremental expenditures made for the purpose of initiating or implementing a savings project.

Amounts included as investment costs should be strictly incremental, meaning only those expenses that would not have occurred, or money that would not have been spent, if the savings project had not been initiated.

Examples of investment costs include purchasing equipment, contracting with consultants, or creating a staff position for a specific savings project or initiative.

It is important to quantify these costs to support a complete and reasonable assessment of each of the savings projects individually and of the overall effort in general. Determination of the net benefit of a savings project/initiative will include investment costs.

The categorization for investment costs is provided below:

- **Incremental Staff Time.** Incremental compensation expense (wages and benefits) paid to State employees. Redeployment of existing staff is not an incremental expenditure and therefore would not be counted as an investment cost
- **Materials and Supplies.** Materials and supplies used in a Savings Project
- **Capital Investments.** Capital investment (e.g., acquisition of computer software or hardware) made for a specific Savings Project
- **Vendor Payments.** Fees and expenses paid to vendors for assistance with a Savings Project
- **Revenue Reductions.** Decreases in revenue resulting from a Savings Project (e.g., reduced Federal funding)

Bureaus/Divisions

Each Efficiency Initiative Area (e.g., IT/Telecom) and Savings Project (e.g., Hardware Maintenance Contract) is "owned" by one of the following CMS Bureaus or Divisions:

Bureau/ Division	Description
Audit	Audit Services
BCCS	Bureau of Communication and Computer Services
BoB	Bureau of Benefits
BoPM	Bureau of Property Management
BOSSAP	Bureau of Strategic Sourcing and Procurement
DoV	Division of Vehicles
Legal	Legal Services
PIO	Public Information Office

Bureaus hold ultimate responsibility for documenting, calculating and validating savings for each Initiative Area and Savings Project they own.

Initiative and Project Summary Template

Item	Description
Initiative Name	
Bureau	
Project Name	
Project Overview	Description of project
How Savings Were Achieved	Explanation of how savings were achieved
Project Start Date	
Project Completion Date	

If Applicable:

Item	Description
Changes in Contract Terms	
Other Project Highlights	
Comments/Notes	

Financial Benefits

Please use the table below to summarize the savings for this project, by fiscal year and savings category.

Cash Basis Presentation

	FY04	FY05	
	Baseline – Spend = Benefit	Baseline – Spend = Benefit	Recurring Benefit*
Savings Benefits			
Reduced Baseline Appropriation (e.g., Across-the-board cuts)			
Budgeted Spend Reductions (e.g., Early retirement programs)			
Rate Reductions (e.g., Renegotiated pricing)			
Volume Reductions (e.g., Reduced consumption of materials)			
Total Savings Benefits			
Revenue Benefits			
Rebates (e.g., Vendor payments to agencies)			
New Revenues (e.g., Introduction of new fees)			
Enhanced Reimbursement (e.g., Payments from private insurers)			
Total Revenue Benefits			
“Other” Savings Categories			
Cost avoidance			
Other—Please Describe			
Other Categories Total			

** Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.*

Methodology and Data Sources

Describe the approach, financial models, and formulas (Methodology) used to determine the Baseline and Spend /Revenue figures (Components) for each fiscal year. Reference the evidence (Data Sources) used as inputs to these calculations. Please refer to the Validation Approach document for direction on the type of source documentation needed to support the validation effort.

Savings Category: Enter Name of Savings Category Here

Fiscal Year	Component	Methodology *Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model/calculations*	Data Sources *Please describe source documents and cite by Name/ID if possible*
FY04	Baseline		
	Spend		
FY05	Baseline		
	Spend		

Revenue Category: Enter Name of Revenue Category Here

Fiscal Year	Component	Methodology *Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model/calculations*	Data Sources *Please describe source documents and cite by Name/ID if possible*
FY04	Baseline		
	Revenue		
FY05	Baseline		
	Revenue		

Add additional tables as necessary to account for each Benefit Category

Accrual Basis Presentation (if different than Cash Basis)

	FY04	FY05	
	Baseline – Spend = Benefit	Baseline – Spend = Benefit	Recurring Benefit*
Savings Benefits			
Reduced Baseline Appropriation (e.g., Across-the-board cuts)			
Budgeted Spend Reductions (e.g., Early retirement programs)			
Rate Reductions (e.g., Renegotiated pricing)			
Volume Reductions (e.g., Reduced consumption of materials)			
Total Savings Benefits			
Revenue Benefits			
Rebates (e.g., Vendor payments to agencies)			
New Revenues (e.g., Introduction of new fees)			
Enhanced Reimbursement (e.g., Payments from private insurers)			
Total Revenue Benefits			
“Other” Savings Categories			
Cost avoidance			
Other—Please Describe			
Other Categories Total			

* Recurring Benefit is the portion of the FY05 Benefit that is recurring from FY04.

Methodology and Data Sources

Describe the approach, financial models, and formulas (Methodology) used to determine the Baseline and Spend /Revenue figures (Components) for each fiscal year. Reference the evidence (Data Sources) used as inputs to these calculations. Please refer to the Validation Approach document for direction on the type of source documentation needed to support the validation effort.

Savings Category: Enter Name of Savings Category Here

Fiscal Year	Component	Methodology *Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model/calculations*	Data Sources *Please describe source documents and cite by Name/ID if possible*
FY04	Baseline		
	Spend		
FY05	Baseline		
	Spend		

Revenue Category: Enter Name of Revenue Category Here

Fiscal Year	Component	Methodology *Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model/calculations*	Data Sources *Please describe source documents and cite by Name/ID if possible*
FY04	Baseline		
	Revenue		
FY05	Baseline		
	Revenue		

Add additional tables as necessary to account for each Benefit Category

Incremental Costs of the Savings Project

Calculate and record the incremental costs of executing the Savings Project.

Cost Component	FY03	FY04	FY05
Incremental staff time			
Materials and supplies			
Capital Investments			
Vendor Payments: Add Vendor Name			
Vendor Payments: Add Vendor Name			
Revenue Reductions			
Add lines as necessary			

Other Costs Not Quantified	Description

Data Sources and Methodology

Describe the approach, financial models, and formulas (Methodology) used to determine the Cost Component figures for each fiscal year. Reference the evidence (Data Sources) used as inputs to these calculations. Please refer to the Validation Approach document for direction on the type of source documentation needed to support the validation effort.

Cost Component	Methodology *Please clearly indicate where "actuals" vs. estimates or extrapolations were used in the financial model/calculations*	Data Sources *Please describe source documents and cite by Name/ID if possible*
Enter Cost Component Name		
Add lines as necessary		

Partnering Cost Analysis

Partnering costs provide additional detail to Consultancy and Vendor costs line items in the table above.

Vendor name	Duration	Role	Key Deliverables

Qualitative Benefits

Describe intangible benefits achieved by the Savings Project

Benefits	Description (examples below)	Outcome	Source ID #
Improved Service Quality	• Increased customer accessibility and responsiveness • Enhanced overall customer focus (internal and external customers) • Greater accuracy and consistency in service delivery • Reduced/eliminated errors • Shortened customer service cycle times • A defined set of policies and procedures followed by agencies, resulting in service consistency and better quality • Ability to leverage specialist skills and increase skill levels, resulting in better quality and customer service		
Improved Technology Leverage	• Easier coordination of technology initiatives and implementation of new technology • Enhanced IT integration • Increased automation of key processes through better technology • Greater flexibility to adapt to changing technology environment		
Improved Decision Making	• Improved decision making through easy access to accurate information • Increased value through segregating non-core processes and shifting focus in agencies to core, more value-added activities, such as agency program efforts		
Improved management of business process	• Decreased non-compliance risk • Flexibility to adapt to changing business requirements • Greater span of control • Increased focus and control of financial processes • Efficient integration of divisions or departments that shift from one agency to another • Optimal blend of in-sourced and outsourced processes ensuring increased process efficiency		
Improved Data Quality and Accessibility	• Enhanced data quality, reliability, and integrity • Improved ability to leverage common information • Improved comparability, consistency, timeliness, and accuracy of financial information through greater control and standardization • Better access to information		

Data Sources and Methodology

Describe and reference the approach(es) used in identifying the benefits described above.

Future Benefits

Benefits	Description	Projected Outcome	Source Description and ID #

Data Sources and Methodology

Describe and reference the approach(es) used in identifying the benefits described above.

Stakeholder Impact

Description of Stakeholders' Considerations

ID	Stakeholder Group	Concerns	Level (L,M,H)	Addressing the concern
1			H	
2			H	

Contact Information

Persons involved in developing this summary

Name	Location/Contact Information	Description of Role developing this document

Glossary

Note: This version of the glossary has been provided to assist with understanding and defining terminology necessary to complete the validation and savings documentation effort.

Further input and analysis is required from key State personnel to complete and use this information.

Validation and Savings Documentation Concepts

Term	Definition
Period of Analysis	
Lapse Period	The two months (60 days) that run from July through August when State law allows agencies to continue to use the previous year's unspent appropriations as long as a contract has been entered into by June 30 of the fiscal year at issue.
Fiscal Year	State of Illinois Fiscal Year (July 1 – June 30)
Documentation	
Efficiency Initiatives	The main functional areas in which savings projects were identified, managed, and executed by CMS to gain improved service and reduced costs for the State of Illinois. The seven Efficiency Initiative areas are: IT/Telecom, Procurement, Facilities Management, Internal Audit, Legal Services, and Fleet Management
Savings Project	A specific project, within an Efficiency Initiative area, that was identified, managed, and executed by CMS to gain improved service and reduced costs for the State of Illinois. Renegotiation of Long Distance Rates is an example of a Savings Project within the IT/Telecom Efficiency Initiative area.
Validation	Evidence supporting conclusions and methodologies through traceability and documentation.
Evidence	Documentation of source level information and data that can be traced from drivers of savings to recorded savings (e.g., contracts to budget line item changes, changes in demand to budget line items changes).
Financial Benefit Categories	
Reduced Baseline Appropriations	Reduction in available resources based on across-the-board General Assembly actions or GOMB targeted cuts in certain areas.
Budgeted Spend Reductions	A reduction in the projected/budgeted resources (e.g., staff time, materials, equipment) used for an activity or business process, as a result of a Savings Project.
Rate Reductions	Obtaining lower rates or prices for goods or services purchased by the State.
Volume Reductions	Reducing the amount of a good or service used. Savings captured in this category will include projects that intentionally sought volume reductions through direct action (e.g., demand management).
Refunds/Credits	Refunds or account credits made by a supplier, typically based on achieving certain spend thresholds or made as a result of rate/price negotiations
New Revenues	Finding new sources of revenue
Fee Increases	Increasing fees for a government service
Enhanced Reimbursement	Improving the accuracy/completeness of a reimbursement process
Project Costs	
Vendor Service Fees	Fees paid to vendors for services provided
Vendor Expenses	Expenses passed through to the State

Term	Definition
Staff Time	Compensation expense (wages and benefits) paid to State employees
Revenue Reductions	Decreases in revenue resulting from a savings project
Other Investments	Materials, equipment or other assets obtained for a savings project
Other	
Baseline	Financial Benefits will generally be calculated by determining the amount of an expense or revenue in a fiscal year (using financial records) and then comparing that amount to an appropriate “baseline.” The baseline could be the amount of the same expense or revenue from a previous fiscal year, or a projected amount based on quantities and prices. For example, to calculate the savings for “Outside Legal Counsel,” the FY04 expenditure for this service would be subtracted from it’s baseline, in this case the FY03 expenditure for “Outside Legal Counsel.”
Demand Management	Introducing measures to regulate demand for, or consumption of, a good or service. Implementing fees or approval procedures are typical demand management techniques.
Cost Avoidance	Anticipated reduction in a future investment or expenditure resulting from decisions made through the initiative

Acronyms/Titles

Term	Definition
BCCS	Bureau of Communication and Computer Services (CMS)
DOT	Department of Transportation
ISP	Illinois State Police
CJIA	Criminal Justice Information Authority
VA	Department of Veterans Affairs
PKI	Public-Key Infrastructure
SSRF	Statistical Services Revolving Fund
PVC	Permanent Virtual Connection
HIPAA	Health Insurance Portability and Accountability Act
SPO	State Purchasing Officer
EA&S Group	Enterprise Architecture and Strategy Group
ICN	The Illinois Century Network
COO	Chief Operating Officer
IFB	Invitation for Bid
KM	Knowledge Management
PBC	Procurement Business Case
PM	Portfolio Manager
RFI	Request for Information
SSM	Strategic Sourcing Manager
DPA	Department of Public Aid
PBM	Pharmacy Benefit Manager
SOW	Statement of Work

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